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FOREWORD

In taking the initiative to hold a hearing on the World Trade Organization and developing countries' the Committee on Development and Cooperation wanted to help to shed light on the new prospects and the constraints which could derive from the new regulations established in the WTO for the developing countries and for the future implementation of the European Union's development cooperation policy.

Of particular concern to the Committee on Development and Cooperation are **a** certain number of questions which relate to the current situation in the developing countries with regard to the WTO and the new international trade regulations. In this respect the following topics seem of particular importance: the erosion of tariff preferences, the scope of special and differentiated treatment for developing countries and the effects of the liberalization of agricultural trade.

The Committee on Development and Cooperation also wishes to raise a certain number of points concerning the definition of future relations between the European Union and the developing countries, especially between the European Union and the ACP countries, with regard to the WTO rules. The committee draws attention in this respect to the fact that the Commission's Green Paper on the future relations between the European Union and the ACP countries makes a certain number of references to the WTO rules and the need to conform to them. ***Also,*** the new Community regulations on bananas which affect a certain number of ACP countries and other developing countries is at present being contested by the WTO.

Lastly, the Committee on Development and Cooperation hopes to see discussion of a specific topic which has been the subject of controversy throughout the negotiations in the Uruguay Round and which concerns the appropriateness of including what is known as a 'social clause' in international trade relations.

This document contains the various papers given at the hearing and could serve as a background document for the committees concerned and the other interested parties.

DIRECTORATE GENERAL FOR RESEARCH

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Presentation by Mr Richard EGLIN, Director of Development Division, WTO, Geneva

1. From a WTO perspective, the trade policies of developing countries are very different today from what they were a decade or more ago, in at least two important respects:

- many developing countries used to view trade policies primarily as tools to protect local producers from being overwhelmed by competition from abroad. They attached high priority to maintaining their GATT "rights" to apply high tariffs and quantitative restrictions, and they demonstrated little appetite for participating in or contributing to system-wide trade liberalisation exercises through periodic GATT Rounds (e.g. the Tokyo Round);

- many developing countries viewed their external economic relations primarily in terms of the world's dual (East-West) economic and political system. Under the prevailing orthodoxy of the time that the market economy produces an unequal distribution of the benefits of trade between rich and poor, they sought to have their trade relations with the West based to as large as possible an extent on preferential arrangements and on "differential and more favourable" treatment under GATT rules.

2. Today, practically all developing countries are committed to open trade policies and are eager to integrate fully into the world economy as quickly as possible. One of the forces driving this process is overwhelming evidence that those countries which abandoned their import-substitution and dependency models of trade development, and were prepared instead to compete vigorously on world markets, prospered and raised their income levels dramatically. A second is competition among developing countries to attract direct foreign investment and technology; success depends in large measure on having liberal commercial policies in place.

3. The participation of developing countries in the Uruguay Round, as well as in recent WTO agreements on the liberalisation of trade in telecommunications services and information technology products, and their willingness to assume multilateral disciplines on their trade policies across the full range of WTO Agreements bear testimony to these observations.

4. The rules and procedures of the WTO provide the foundation for good governance of the multilateral trading system, and are well-designed to accommodate the readiness of developing countries to treat global markets as an economic opportunity rather than a threat. Basic features of the WTO system which are of particular relevance to developing countries are:

- multilateral rules and disciplines that are the point of reference for the conduct of commercial policy by all WTO Members. The alternative is discriminatory, bilateral arrangements, which are unstable, un-transparent, unpredictable, and frequently subjugate the trade interests of politically small or weak countries to extraneous factors. Multilateralism based on WTO rules is a declaration of economic independence for developing countries;

- the dispute settlement process, accessible to all WTO Members, allowing developing countries to defend and enforce their WTO rights through impartial evaluation;

- a framework for reciprocal exchanges of concessions. **This can** assist developing country governments to overcome entrenched domestic, special interest groups opposed to economic policy reform;

- a mechanism for the constant improvement of market **access** conditions for developing countries. The High Level Meeting for Least-Developed Countries, which was convened by **WTO** Ministers in Singapore last December, will take place in October 1997 and will create the most important opportunity there has been for developed and developing country WTO Members to dedicate improvements in the market access they offer to imports fiom least-developed countries;

- special provisions in the WTO Agreements designed to provide developing countries with additional time to put their commercial policy reforms in place and to design them in a way which takes account of their particular circumstances. For example:

  Agriculture - the initial reform of trade in agriculture will be made over a period of 10 years for developing countries (as opposed to **6** years for developed countries), and least-developed countries are exempt from the reduction (although not the binding) process. In the area of market access, the tariff reduction required of developing countries is two-thirds of that required of developed countries, and developing countries have the flexibility to offer ceiling bindings on unbound products in lieu of taking reduction commitments on the tariff levels applied in 1986. Domestic support policies exempt fiom reduction commitments for developing countries include generally available investment subsidies and agricultural input subsidies provided to low-income or resource-poor farmers. Domestic support policies that do not exceed 10 percent ***(5*** percent for developed countries) of the total value of production of a product or product sector are not included in the AMS for developing countries. On the export side, developing countries are not required to undertake commitments on subsidies to reduce the cost of marketing products and internal transport subsidies. Possible negative effects of the reform programme on least-developed and net food-importing developing countries are addressed through a Ministerial Declaration. Within the negotiations for continuing the reform in agricultural trade, Members are to take into account special and differential treatment to developing countries;

  TRIMs - developing countries have ***5*** years (as opposed to **2** years for developed countries) to eliminate all GATT-inconsistent TRIMs, and may have the transition period extended;

  TRIPS - developing countries may delay the application of the provisions of the Agreement (other than MFN and national treatment) for ***5*** years, and in the case of product patents for up to 10 years, (as opposed to **1** year for developed countries);

  Services - Under Article XIX, in the process of liberalisation appropriate flexibility is provided for developing countries to open fewer sectors, to liberalize fewer types of transactions, progressively extending market access in line with their development situation, and to attach conditions when making access to their markets available to foreign service suppliers. These provisions are aimed at achieving their increasing participation in the system in line with Article **IV**.

5. Constraints facing developing countries are:

- developing countries are concerned that trade liberalisation initiatives (Uruguay Round and later) have touched sectors of primary concern to their export interests, such as agriculture, fish and fish products, textiles and clothing, footwear, and light manufacturing, less deeply than other sectors. These sectors have not been subject automatically to the formula tariff cuts agreed in **other** sectors, and liberalisation has in some cases been back-loaded (e.g. textiles and clothing, in contrast to the zero-for-zero agreements reached elsewhere);

- developing countries are concerned that WTO rules provide too much flexibility for contingent trade measures (anti-dumping duties, countervailing measures, and safeguard measures) to be applied against their exports where they prove really successful in competing on world markets;

- developing countries are concerned about the erosion of preference margins by the MFN tariff cuts **agreed** in the Uruguay Round. For some, this will indeed pose problems. Overall, however, less than 20 percent of imports from developing countries into the **US, EU** and Japan actually obtain **GSP** treatment. About **30** percent obtain duty-free treatment, and somewhat over 50 percent face MFN duties, made lower by the Uruguay Round results. Emphasis in this regard **needs** to be placed on the ability and willingness of developed countries (and other developing countries) to improve and extend their preference schemes to cover "sensitive" product areas such **as** textiles and clothing and agriculture and to relax or remove burdensome rules of origin or country exclusions;

- many developing countries are concerned that the proliferation of regional trade agreements will fail to address properly their particular export interests, and could lead to additional barriers being erected against their exports or to further preference erosion where they are not included in these regional arrangements.

6. These concerns do not reflect fundamental flaws in the multilateral trading system, but they do reflect "unfinished business" which **WTO** Members must address promptly in the context of current work on the implementation of the results of the Uruguay Round negotiations and further initiatives.

Presentation by Mrs Caroline LE QUESNE Representative of *OXFAM* (UK)

A Perspective from Oxfam UK[1]

Summary

The Uruguay Round Agreement was widely regarded as a decisive step towards the creation of a globalised international economy, in which the benefits of free trade could be distributed to all countries. A closer look at the facts, however, reveals a more complex picture.

For many developing countries, it is clear that liberalisation and globalisation do present new opportunities and the potential for economic growth and improved welfare. Yet globalisation is a double-edged sword: while more opportunities are opening **up,** competition is more intense, and countries need to have a competitive advantage in order to participate in, and benefit from, the new global economic environment. In the absence of internationally agreed minimum standards, there is a growing concern that **this** advantage is frequently based on the exploitation of labour standards and the environment.

For the least developed countries (LLDCs), globalisation and liberalisation have meant marginalisation. These countries are being increasingly left behind, as the rest of the world speeds **up** its economic integration. The forty eight least developed countries now account for less than 0.3 per cent of world trade - half the level of two decades ago. These countries are also being bypassed by foreign investment, which has now displaced aid as the main vehicle for North-South financial flows. This pattern of distribution is not accidental. Inequality in wealth mirrors a deep inequity in the rules governing world trade and finance, which have been structured around the interests of the most developed countries.

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1 This paper draws widely from the following documents:

Watkins, **Kevin,** ***Globalisation and Liberalisation: the implications for poverty, distribution, and inequality.*** Paper prepared for UNDP Human Development Report Advisory Panel, **Oxfam, 1997.**

Le Quesne, Caroline, ***Reforming World Trade: The Social and Environmental Priorities,*** **Oxfam, 1996.**

Trade Liberalisation as a threat to livelihoods: the corn sector in the Philippines, **Oxfam,** December, **1996.**

The Lands That Trade Forgot, Christian Aid, December, **1996.**

The Oxfam Poverty Report, **Oxfam, 1995.**

The agenda of the Uruguay Round is itself a testament to the superior bargaining power of the industrialised countries, who **succeeded** in getting issues such as investment and intellectual property rights onto the agenda, in spite of initial opposition from Southern governments. Issues of vital concern to many of the world's poorest countries - notably the management of primary commodity markets and debt - were conspicuous by their absence from the negotiations. Others issues were inadequately addressed, including the problems of industrial and agricultural protectionism in the developed countries.

Reform of the world trade rules overseen by the WTO is urgently needed to ensure that poor people in developing countries enjoy a fairer share of the benefits which international trade can bring. To reverse the marginalisation of the LLDCs will also require concerted effort from the developed and newly industrialising countries, not only to increase market access but also - more importantly - to help build supply side capacity in the LLDCs.

Moreover, we believe that if the **WTO** is to fulfil the commitments set out in the Agreement which established the organisation - namely to ensure that developing countries, especially the LLDCs, share in the benefits of liberalised trade, to "protect and preserve the environment", and to be guided by "the objective of sustainable development" - there needs to be a more fundamental review of the WTO's role within the wider international trading system with a view to exploring how it can better take into account the broader issues of most immediate concern to the poorest countries - commodity prices and debt.

The following steps are some of the major priorities for action that need to be taken by WTO members to ***start*** enabling the poorer countries and people to enjoy some of the benefits of increased world trade:

Market Access

- Adopt in full the Ruggiero proposal for the elimination of all tariff and non-tariff barriers for LLDC products. The European Commission's proposal ("Improving Market Access for Least Developed Countries") is a very welcome start;

- make rules of origin more flexible and transparent; for LLDCs, withdraw them completely;

- stop tariff escalation to allow diversification into value-added products.

Supply side

Although the **WTO** does not have direct competence in supply side issues, as the key international forum for world trade leaders it could send a strong political signal to the international community, pointing out that until supply side capacity issues are addressed, very little real progress can be made on integrating the poorest countries into the world economy. Some of the key priorities for action in this area would be to:

- Increase aid and technology transfer to **LLDCs** in ways that are consistent with trade facilitation and poverty alleviation;
- focus technical assistance on institutional and human capacity building;
- develop international co-operation to stabilise commodity markets at remunerative levels.

Participation in the world trade system

- Introduce into the WTO a social clause, jointly administered with the ILO and focusing on the key ILO conventions concerning Freedom of Association and the Right to Organise and Collective Bargaining;
- fund consistent representation of **LLDCs** in Geneva and provide support to improve negotiating capacity;
- agree a comprehensive prohibition of agricultural export subsidies and introduce into the WTO a new food security clause which would allow all developing countries to protect their food systems for social, environmental, and economic reasons, up to the point of national food self-sufficiency;
- establish new international trade rules to reconcile the potential conflicts at national and international levels between free trade and sustainable resource management.

The World Trade Organisation and The Developing Countries

Introduction

The Uruguay Round agreement, now being implemented under the WTO, was widely regarded as a triumph for multilateralism, and as a decisive step towards the creation of a globalised international economy, in which the benefits of free trade could be distributed among all countries. A closer look at the facts, however, reveals a more complex picture.

For many developing countries it is clear that globalisation does present new opportunities, the potential for economic growth and improved welfare. Yet globalisation is a double-edged sword: while more opportunities are opening up, competition is more intense, and countries need to have a competitive advantage in order to participate in, and benefit fiom, the new global economic environment. In the absence of internationally agreed minimum standards, there is a growing concern that this advantage is frequently based on the exploitation of labour standards and the environment.

For the least developed countries **(LLDCs),** globalisation and liberalisation have meant marginalisation. These countries are being increasingly left behind, as the rest of the world speeds up its economic integration: the **LLDC** share of world exports has fallen by more than half over the past

two decades to only ***0.3*** per cent. These countries are also being bypassed by foreign investment flows, which are now replacing aid as the main vehicle for North-South financial flows.
World trade rules are in urgent need of reform to ensure that a fairer share of the benefits of international trade reach poor people and poor countries. To reverse the marginalisation of the LLDCs will require concerted efforts fiom the developed and newly industrialised countries, not only to **increase** market access but also - more importantly - to build supply side capacity in the LLDCs. In this paper, we will explore some of the changes needed at the WTO to promote more equitable patterns of growth, and also present the case for a more fundamental review of the WTO's role within the wider international trading system.

The Uruguay Round: an Assessment

The Uruguay Round of multilateral trade negotiations, which was concluded by the signing of the Final Act in 1994, **has** done little to change the bleak picture facing the least developed countries, in spite ofthe rhetoric to the contrary. Even before its conclusion, it was widely celebrated as the dawn of a new era, with the multilateral trading system generating enormous gains for all countries. The **Ministerial** Declaration which launched the Round included in its first objectives the extension of the benefits which can be gained from international trade to developing countries, including the least developed among them, **as** one of the major aims of the negotiations. Tariff reductions, the lowering of non-tariff barriers, the integration of textiles into a new set of trade rules, the liberalisation of agriculture, and the maintenance of special and differential treatment for developing countries are commonly cited as evidence that the Final Act has created a framework for the more equitable distribution of benefits from world trade.

In fact, the benefits accruing to developing countries are considerably more limited than first appears. Under the old GATT regime, trade liberalisation was geared towards policies and sectors of most interest to the industrialised countries - mainly **tariffs** on manufactured goods. Under the new regime, the benefits of tariff reduction have again been weighted in favour of the industrialised world. Moreover, the move towards **full** liberalisation in textiles and agriculture is considerably more restricted in practice than the principles enshrined in the **WTO** framework would suggest. Finally, many of the structural problems which hamper the capacity of the poorest countries to benefit from more liberal trade did not figure on the Uruguay Round agenda.

Tariffs and Trade Preferences

Goods **fiom** industrialised countries enjoyed much greater reductions in tariffs than those from developing countries - **45** per cent compared with 20-25 per cent. While the developing countries as a group now face **tariffs** 10 **per** cent higher than the global average, the least developed countries face tariffs 30 per cent higher - because tariffs remain high on the goods with greatest potential for the poorest countries, such as textiles, leather, and agricultural commodities.

Another persistent problem is tariff escalation - the practice of setting higher tariffs on processed goods than on raw materials. This locks developing countries into volatile primary commodity **markets,** where real prices **are** declining, and obstructs an obvious way **for** them to add value to their exports. While some progress on this issue was made, for some of the commodities of most significance for developing countries - such as leather, oilseeds, textile fibres, and beverages - tariffs will continue to be 8-16 per cent higher on the final product than on the underlying raw materials. It does remain the case, however, that global liberalisation trends mean that tariffs are generally decreasing. But **this** is not necessarily good news for all countries: for the least developed countries, for example, it means a **loss** in the margin of preferences extended to them under programmes like the Generalised System of Preferences (GSP). One study (Page and Davenport 1994) estimates that, **as** a result of liberalisation agreements made under the Uruguay **Round,** three of the poorest countries in the world - Ethiopia, Mozambique, and Mali - will soon start to face export losses in excess of 4 per cent per annum.

Both the **US** and the EU are considering reforms of their GSP systems, reducing the per capita income threshold for eligibility and the upper ceiling on market share after which preferences will be withdrawn. While these are to be welcomed, it has to be recognised that there are wider problems that remain unaddressed. The utilisation and benefits of many GSP schemes for the poorest countries have been limited, and the share of preferential imports in dutiable imports has been declining (UNCTAD 1993). In 1994, UNCTAD's Special Committee on Preferences concluded that GSP schemes are limited both by the weakness of supply side capacity in the poorest countries, and by continuing non-tariff restrictions. Factors such as their incomplete product-coverage, (with the exclusion of "sensitive" items in agriculture a special problem); the imposition of quota constraints on duty-free imports; complex rules of origin criteria which set upper limits on the proportion of value added to exports by imported inputs; and uncertainty surrounding the continuation of preferences (which acts as a deterrent to investment) are all obstacles which need to be addressed. One way in which developed countries could assist the poorest countries would be to conduct a review of rules of origin arrangements with a view to, at best, withdrawing them from LLDCs, and at least, simplifying the rules and increasing the ceilings for import content. At the same time, GSP arrangements could be restructured, with exports produced by countries which have suffered preference losses being given special preferences. These options are considered in the Comprehensive and Integrated WTO Plan of Action for Least Developed Countries, which calls for a comprehensive approach to "contribute to the expansion of trade, sustainable growth and development" of the poorest countries **(WTO,** 1996). The recent proposal which originated from DG1 (Improving Market **Access** for Least Developed Countries, Com (97) 156 Final), suggesting that the EU unilaterally level up its preferential trade policy towards all LLDCs to match either the best GSP or Lome rate, and that LLDCs be permitted to cumulate the origin of exports to Europe, is a very welcome start.

Other measures to be considered should include:

- the elimination of tariff escalation, especially in GSP schemes for semi-processed agricultural produce and natural resources;
- deeper tariff cuts and **duty** elimination under **GSP** and other preferential schemes still subject to high tariff peaks;
- the withdrawal of rules of origin criteria for LLDCs;
- a prohibition on safeguard actions against products exported by LLDCs.

Textiles and Clothing

Since 1974 the Multifibre Arrangement has discriminated against textiles and clothing from developing countries. For some of the poorest countries, this sector is the most important source of foreign-exchange earnings. Estimates of the total foreign-exchange losses resulting from MFA quotas and tariffs range from $4bn to $15bn annually. The Uruguay Round committed the developed countries to dismantling the MFA product by product over a ten year period. There are a number of points to be made about this agreement: first, it is heavily end-loaded, with the majority of the benefits coming at the end of the ten years. Second, tariffs will remain very high in the textiles and clothing sector. At 12 per cent, the average tariff will be three times the industrial country average, implying a high degree of discrimination against developing country suppliers. Finally the industrial countries have adopted a policy of implementing the letter of the ATC, while violating its spirit. In the first phase of liberalisation, the EU has hit upon the ingenious idea of including items - such as parachutes and car-seat belts - which were not previously covered by the MFA. Almost 60 per cent of all the items offered for liberalisation by the EU fall into this category. Meanwhile, trade in clothing, which is the most important export for the poorest countries, has been the least integrated, accounted for just 2 per cent of the EU's offers.

Agriculture

The Uruguay Round's Blair House Agreement on Agriculture was hailed as the start of a new era in world agricultural trade. In reality, the results are considerably less impressive, since the US and EU agreed a *system* of permissible subsidies which enabled them to maintain current levels of production and exports.

Developing countries were given some concessions: the least developed countries are not required to implement the Agreement, while the others are only obliged to make cuts of two thirds those specified for other countries, and have ten years to do so, instead of six. But the new obligations on them to reduce restrictions on agricultural imports by 13 per cent over the lifetime of the Agreement, will further exacerbate the food security problems many of them already face. In many areas, this is likely to intensify the trend towards rural unemployment, with its corollary of rural-urban migration, reduced production of basic food staples, and deteriorating welfare.

Oxfam believes that, in the specific case of agriculture, there should be no obligation on developing countries to open up their food systems, both because international markets are massively distorted by OECD subsidisation, and because the food security of people should take precedence over any requirement to liberalise. Instead, there should be a new food security clause in the WTO which would allow all developing countries to protect their food systems for social, environmental, and economic reasons, up to the point of national food self-sufficiency.

Liberalisation as a threat to livelihoods: the corn sector in the Philippines

In the Philippines, the government is liberalising the corn market as part of its obligations under the Uruguay Round. Tariffs on imports will be halved over the next eight years and minimum import quantities expanded. According to the Philippines government, the resulting competitive pressures will lead to major efficiency gains in domestic agriculture. In more concrete terms, the result could be that, depending on world price trends, corn imported from the **USA** could be available at prices ***30%*** below current market prices by the end of the decade. Domestic farmgate prices will decline towards this import-parity level.

Oxfam UK/I has been working with groups in the Philippines to assess what this will mean for producers in the Philippines. Corn is the second most important crop produced in the country after rice, with around 1.2 million households involved. On the island of Mindanao, the main corn-producing area, over half the population lives below the poverty line, with incomes insufficient to meet basic needs of nutrition, shelter, and clothing. **Human** welfare indicators in corn-producing areas are more reminiscent of sub-Saharan Africa that south-east Asia, with one third of all children below the age of five suffering fiom malnutrition. Against this backdrop, any decline in household income will have potentially disastrous effects. Many of the poorest households derive over three-quarters of their income fiom sales. ***As*** that income declines, resources available for food, health, and education will be diminished, with large-scale migration a serious prospect. Our research suggests that up to half a million livelihoods could be lost.

Sustainable Resource Management

In spite of the WTO's professed commitment to sustainable development, its own trade rules frequently undermine member states' efforts to pursue this goal. The debate over trade and environment is a case in point. Current trade rules discourage governments from pursuing a strategy of internalising environmental costs precisely because the rules prohibit governments from protecting their domestic industries **fiom** cheaper competition from countries which have not internalised costs to the same extent.

The traditional defence of free trade is that the cause of environmental degradation is not trade liberalisation, but a failure to price a country's environmental resources correctly, with trade simply acting **as** a "magnifier" of that failure. But this argument fails to recognise that attempts by countries to rectify faulty pricing policies are frequently blocked by the regulatory system itself.

The **WTO** framework as currently constituted fails to recognise that the environmental degradation associated with production processes itself increasingly imposes real costs which are not reflected in **market** prices, and that **this has** a similar **distorting** effect on trade as dumping or subsidisation. Trade rules should therefore be reformed **so** that they no longer act as an obstacle to sustainable development.

The Post *Lomé* Debate

Another area where trade rules most clearly need to be changed relates to the Lome Convention. The Convention, which covers the **EU's** trade and aid relations with the ACP countries, expires in the year 2000. The negotiation of a new development co-operation agreement to replace it is critical if some of the poorest and most vulnerable countries are to be supported. Oxfam believes that this offers the

EU a critical opportunity to demonstrate international leadership in promoting growth with equity for human development. The aid, trade, and investment instruments open to the EU must be directed towards poverty eradication, sustainable development, and reducing conflict, which markets alone will not achieve. A new agreement should therefore not only include the maintenance of the non-reciprocal preferential treatment currently offered under Lome, but also enhanced co-operation for trade development (with the aim of increasing supply side capacity) to ensure that the benefits of trade policy reach poor people and reduce inequality of income and of access to resources.

Questions have been raised about the non-compatibility of Lome's trade provisions - and in particular trade preferences and protocols - with the Post-Uruguay Round arrangements which are being overseen by the WTO. However, within WTO rules, there is provision for a waiver for non-reciprocal trade arrangements. Given sufficient political will, it is still feasible that such waivers could be granted, provided there is the combined support of the EU and ACP member states within the WTO. Indeed, there are a number of factors which suggest that measures to support poorer countries would actually be in keeping with the spirit of the WTO. Lome preferences and protocols precisely support the objectives laid out in the preamble to the Agreement establishing the WTO (raising standards of living, ensuring full employment, and promoting sustainable development), and the WTO's own Plan of Action for LLDCs demonstrates that there is a case to be made for treating poorer countries differently. The EU must push for that case to be extended to the ACP countries. Either a waiver from the rules, or better still a change in the rules, will be critical to ensure the continuance of this vital relationship between the EU and the ACP.

Supply side capacity building

While market access issues are clearly important, particularly in certain product sectors, all the evidence suggests that a much larger problem for the LLDCs relates to supply side capacity in the poorest countries.

The example of the ACP countries is a salutary one. In spite of over two decades of Lome preferences, the ACP countries have failed to diversify their economies, with over 80 per cent of their export earnings still coming from primary commodities. They have also been unable to maintain their share of the EU market, which has fallen from 6.7 per cent in 1976 to 3.4 per cent in 1994; meanwhile some less preferred developing countries have actually gained market share. This suggests that, while market access is important, it is not a sufficient condition to guarantee trade growth and diversification.

The ACP example demonstrates that, while some of the problem lies with continuing non-tariff restrictions within the EU, much of it relates to insufficient supply side capacity in the ACP countries themselves: poor infrastructure, lack of local processing, and lack of skilled labour all hinder their trade development. Poverty and political instability hamper investment in health, education, and the social and institutional infrastructure necessary to be internationally competitive. Enhanced supply side capacity also depends on increased investment, both domestic and foreign. This is unlikely to be forthcoming without the resolution of the debt problem in these countries.

The LLDCs are shouldering an enormous burden of debt. Over half of them are among the most heavily indebted poor countries, and in many cases the servicing of debt absorbs more money than total investment in education and health. In Zambia, for example, infant mortality rates are rising in the face of collapsing provision of health, clean water, and sanitation. Yet for every $1 spent on health, the country spends an additional $4 on debt servicing. In spite of adopting structural adjustment programmes to liberalise their economies, then, these countries cannot invest in the means to benefit from an open trading system.

Falling commodity prices is the other key issue facing the poorest countries. Few of them have been able to diversify their export base away from primary commodities. Some 30 countries in Africa and 18 in Latin America depend on primary commodity exports for more than half of their export earnings, and they have been particularly hard hit by the decline in their terms of trade during the 1980s. Between 1980 and 1993, prices for non-oil primary commodities fell by more than half relative to prices for manufactured goods. The estimated annual loss to developing countries over this period was around $100 bn: more than twice the total flow of aid in 1990.

The WTO, as it is currently constituted, is unable to address many of these problems. With its narrow focus on market access alone, it fails to address the wider but related issues of supply side capacity, commodity prices, and debt. The original vision, which accompanied the setting up of the Bretton Woods Institutions just over 50 years ago, was of an International Trade Organisation which would have had a much broader mandate, precisely because it was recognised that to treat issues of market access in isolation from supply side capacity was unhelpful. Given the growing marginalisation of the LLDCs, and the relatively little progress they have made under existing trade rules, it is time to ask whether a more fundamental review of the role of the WTO within the wider international economic system is not overdue.

Participation in the WTO

Finally, there are important institutional questions which need to be addressed if the poorest countries are to participate in the WTO on more equitable terms. At present, there are 29 LLDC members of the WTO. Only ten of these countries maintain a trade representative's office in Geneva. Even those countries which do maintain offices are massively overstretched. While the US and EU are able to mobilise and maintain armies of trade lawyers, technical specialists, and official negotiators, most developing countries have one or two officials available. During the Uruguay Round, these officials were covering fifteen different negotiating areas, ranging from textiles to intellectual property and investment, while the developed countries were able to deploy entire teams for each working group. Such asymmetries in negotiating strength have obvious implications for the outcome of bargaining processes. Increased co-operation between developing countries, allied to shared specialisation, is part of the answer; but increased financial and technical support should also be made available *through* the WTO itself to create a more democratic structure. The recent funding support from the EU and others to help LLDC Ministers and accompanying senior officials to attend the Singapore Ministerial meeting is a welcome initiative in this area.

Conclusion

If the WTO is to fulfil the commitments set out in its establishing Agreement - to ensure that developing countries, especially the **LLDCs,** share in the benefits of liberalised trade, to "protect and preserve the environment", and to be guided by "the objective of sustainable development", it will have to come to grips with the need for fundamental change in a world of widening inequities.

The following steps are some of the **major** priorities for action that needs to be taken by WTO members to enable poor people and poor **countries** to enjoy a fairer share of the benefits of increased world trade:

Market Access

- Adopt in **full** the Ruggiero proposal for the elimination of all tariff and non-tariff barriers for LLDC products. The European Commission's proposal ("Improving Market Access for Least Developed Countries") is a very welcome start;
- make rules of **origin** more flexible and transparent; for LLDCs, withdraw them completely;
- stop **tariff** escalation, to **allow** diversification into value-added products.

Supply side

Although the WTO does not have direct competence in supply side issues, as the key international **forum** for world trade leaders, it could send a strong political signal to the international community, pointing out that **until** supply side capacity issues are addressed, very little real progress can be made on integrating the poorest countries into the world economy. Some of the key priorities for action in this area would be to:

- Increase aid and technology transfer to LLDCs in ways that are consistent with trade facilitation and poverty alleviation;
- focus technical assistance on institutional and human capacity building;
- develop international co-operation to stabilise commodity markets at remunerative levels.

Participation in the World Trade System

- Introduce into the WTO **a** social clause, jointly administered with the ILO and focusing on the key **ILO** conventions concerning Freedom of Association and the Right to Organise and Collective Bargaining;

- fund consistent representation of **LLDCs** in Geneva and provide support to improve negotiating capacity;
- agree a comprehensive prohibition of agricultural export subsidisation, and introduce into the **WTO** a new food security clause which would allow all developing countries to protect their food systems for **social,** environmental, and economic reasons, **up** to the point of national food self-sufficiency;
- establish new international trade rules to reconcile the potential conflicts at national and international levels between free trade and sustainable resource management.

Presentation by Mrs Ann PETTIFOR, Representative of Debt Crisis Network (UK) and Jubilee 2000

Introduction:

At the Ministerial Conference of the World Trade Organisation in Singapore in December, **1996,** Ministers issued a Declaration in which they announced that *"the rise in global trade facilitated by trade liberalisation within the rules-based system has created more and better paid jobs in many countries".* **Mr** Elgin, in **his** evidence to the Committee, began by saying that *"all deveioping countries committed to open trade policies had prospered and raised income levels dramatically."*

This is in **stark** contrast to the view of the IMF in its latest World Economic Outlook (WEO) (May **1997).** This Report recognises that the forces of global economic integration have led to dramatic increases in wealth in countries like South Korea and Thailand. (Ironically, and perhaps a little embarrassing for the IMF, both are presently enduring serious banking and domestic debt crises).

Despite the progress of countries like these, the IMF admits that

> *"most developing countries regrettably have failed to raise their per capita incomes toward those of the industrial countries. In fact Asia (i.e. China) is the only major region to have registered significant relative progress."*

The Report notes that with globalization

> *"there has also been a sharp decline in upward mobility of developing countries within the international distribution of average per capita incomes and an increased tendency for countries to become polarised into high and low-income clusters." (page I16)*

According to the **WEO,** over the past thirty years, the vast majority of developing countries **- 84** out of **108 -** have either stayed in the lowest-income quintile from **a** relatively higher position. Moreover, there are now fewer middle-income developing countries, and upward mobility of countries seems to have fallen over time. These forces of polarisation, according to the IMF,

> *"seem to have become stronger since the early **1980s."***

The public optimism of the **WTO,** its Ministers and officials, does not it seems, confirm economic reality **for** most developing countries.

Developed countries: the "schizophrenia" of trade policies

As Mr Michel Camdessus, Managing Director ***of*** the IMF, has noted on many occasions, developed countries adopt double standards in their trading relations with developing countries. On the one hand the leaders of developed nations use Mr. Camdessus's institution as **an** agent to enforce economic conditionality, including free trade, on indebted nations. These conditions oblige them to remove subsidies fiom their agricultural sector, lift tariffs on imports, and generally open up their markets to the exports of developed countries. On the other hand, developed countries maintain massive subsidies for, in particular, their agricultural sector, and hide behind a range of protectionist barriers. The current dispute within the European Union over the imports of unbleached cotton (see the FT of 28 May, 1997) is typical of the double standards adopted by the rich countries of the North.

Anne O. Kreuger is professor of economics at Stanford University, and was the 1996 president of the American Economic Association. She served as vice president for economics and research at the World Bank from 1982 through 1986.

In her book "American Trade Policy - a tragedy in the making" Ms Kreuger asserts

> *"Most Americans, including evidently American policy makers, appear to believe that the American economy is open and that only other countries are guilty of protection. The contrast between American words of American actions makes the risk of trade war even more likely than it would otherwise be.*
>
> *Since the 1970s, US policy has become increasingly schizophrenic. On one hand, there has been support for successive GATT rounds and other trade liberalising measures. At the same time however, the United States has increasingly resorted to restrictive trade measures both in practice and in rhetoric and is no longer answering in its support for multilateralism. In the 1980s US official policy shifted away from unequivocal support for the open multilateral trading system to a "two-track" approach under which support for the GATT would be coupled with measures to enter into free trade agreements with particular countries."*[2]

US practices have now extended well beyond antidumping, countervailing duty, and escape clause provisions. Congress has mandated trade remedies bilaterally, despite the fact that the trading partner's practices are not inconsistent with GATT.

> *"The most egregious example of this was Super 301 ...perhaps the quintessential bilateral trading practice. Unlike antidumping, countervailing duty, and escape clause administration, which is, at least on the surface, consistent with the GATT, Super 301 and related measures are inherently bilateral and operate blatantly outside the GATT framework."*[3]

Ms Kreuger points out that the US auto and steel industries began the postwar era as exporters,

> *"lost their shares of export markets, and ultimately switched to import-competing industries seeking protection. By contrast, the textile and apparel industry has sought protection almost continuously since the mid-1950s."*

2 *"American Trade Policy"*, published by the AEI Press, publisher for the American Enterprise Institute, **Washington, 1995,** page **30.**

3 Chapter Two, *"Administered Protection"*, page ***36.***

The Multi-fibre Arrangement contravenes virtually every GATT principle. As Ms Kreuger rightly observes,

> *"virtually all developing countries that export any sizeable quantity of exports of textiles and apparel have become subject to Multi-fibre Arrangement restrictions, while industrialized countries do not restrict trade among themselves. Such procedure is highly discriminatory... favouring developed country production in other developed countries' markets at the expense of (often lower cost) developing countries' exports".*[4]

Subsidies for Developed Country sectors

Ms Kreuger notes that in the discussions leading up to the Uruguay Round, the intent was to limit subsidisation. The US, in particular, sought and ultimately secured a stronger subsidies code. In the Uruguay Round, parties agreed to further provisions restricting subsidies, but the United States has subsequently declared its unwillingness to take part in them.[5]

As is well known, the liberalisation of world trade was confined (at least until the 1980s) largely to the industrialised countries and largely to trade in non-agricultural commodities. This approach discriminates against developing countries for whom the agricultural sector tends to be more important. When the GATT articles (within the ITO Charter) were negotiated, the US authorities strongly believed that no agreement could pass that did not leave US agricultural programmes intact. Similar subsidies remain intact in Europe.

According to an OECD Report ("Agricultural policies, markets and trade in OECD countries" 1995) subsidies to the agricultural sectors of Developed Countries are now worth $330 billion a year. The value of subsidies to the American agricultural sector alone are set at around **$40** billion a year.[6]

When it comes to agricultural subsidies, OECD countries say one thing, and do another. What is good for the fattened up, developed country goose, it would appear, is not good for the hungry, impoverished, developing country gander.

Export subsidies become unpayable debts

Poor terms of trade provide a major explanation for rising levels of developing country indebtedness. As the poorest countries try desperately to earn hard currency to repay debts (which grow inexorably thanks to the magic of compound interest, historically high interest rates and currency shifts - the

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4 Chapter Two, page 63.

5 Chapter Two, *"Multilateral Trade under the GATT"*.

6 OECD: *"Agricultural policies, markets and trade in OECD countries", Monitoring and Outlook,* 1995. See also editorial in the Economist, 11 February 1995.

latter largely **fixed** in the developed world), **so** they are hampered by falls in the prices of their basic commodities, and restrictions on their ability to add value to those commodities.

However, rising levels of debt are also the result of aggressive lending by developed countries in support of exports. OECD countries **use both** aid and **lending** to promote ***their*** exports. These policies are pursued both by countries with substantial trade surpluses, and those with deficits.

According to the IMF,

> *"Between **1988** and **1993** new export credit commitments nearly tripled from* **$24** *billion **to** nearly $70 billion, and by the end of **1993,** the total exposure of export credit agencies had grown to an estimated **$380** billion. They account **for** more than **20%** of the $I.* **7** *trillion in total external indebtedness to all creditors. **For** the 20 main recipients of export credits, which include all major debtor countries, export credits account **for** nearly **half of** their debt to official creditors.'"*

The World Bank in its **1995** "Word Debt Tables" report, notes that **"Export** credits have become important instruments of foreign trade policy." and that "between **1994** and **1995,** export credit agencies *"increased their exposure by II per cent **...** despite tight budgets in OECD countries".*

Britain's Export Credits Guarantee Department (ECGD) **is** shrouded in secrecy, as the World Development Movement has shown in its study of the financing of arms **sales**.[8]

> *Arms have consumed on average **one** third **of** all Britain's finding **for** exports in the seven years to **1995**. In **1993-4** nearly **half of** all export credits were used to promote and subsidise British arms sales.*[9]

These arms export credits result in **high** levels of debt for developing countries. ***As*** Barber Conable, ex-President of the World **Bank** once noted, ***"arms** are often a prime source of external debt; military debt accounts **for** a third **or** more **of** total debt service in several large developing countries."*

The Multilateral Banks: expanding markets and guaranteeing exports

Much multilateral debt, ie debt owed to the World **Bank,** the IMF and various development banks, is also a result of indirect lending to promote exports.

7 See Kuhn, Michael G., Horvath, Balazs, and **Jarvis,** Christopher **J.,** "*Officially Supported Export Credits - recent developments and prospects*", Published by the IMF, March, **1995.**

8 **Jackson,** Ben, *"**Gunrunners Gold** - how the public's moneyfinances arms sales."*, published by WDM, May, **1995.**

9 Quoted **in** pamphlet *"Debt- how the poor are **paying** the rich"* produced by DCN and WDM, February, 1996.

In a publication, ***"The Multilateral Development banks: increasing US exports and creating US jobs"*** (May 1994), the **US** Treasury explains the American government's attitude to financing the World **Bank,** the IMF and other multilateral institutions:

> ***"Last year more than $2.7 billion went to US firms that had won contracts to help carry out projects and programs funded through the development banks. This figure was nearly twice the $1.5 billion the US paid into the banks for that year. <u>It pave us an export bonus of nearlv 80%"</u>*** (our emphasis).

The IMF, loans and export credits to Mobutu

Between 1970 and 1994 Zaire received **$8.5** billion in loans and grants **from** western donors. **IMF** figures show **the** Fund offered nine loans worth **SDR** 231 m to Zaire between 1967 and 1982. In that year, Mr Erwin Blumenthal a senior German banker seconded to the Zaire central bank 1978, reported that ***"there was no chance on the horizon for Zaire's numerous creditors to get their money back.."*** Mr Blumenthal's damning portrayal of the routine plunder of state finances was ignored by both government donors and creditors. Three years after his report was written, the IMF granted Mobutu the largest ever loan made to an African country.[10]

IMF and Western government lending, to Mobutu, Marcos or Ceascescu in Romania is often just an extension of lending as an instrument of the foreign trade policy of the leading shareholders of the IMF and World Bank, **as** the World Bank itself has correctly observed. This would be all very well, if the IMF then did not demand repayment **(plus** interest) **from** the poor populations of these countries, well after their corrupt dictators have departed from the stage. Complicity and collusion with these dictators occurs **because** government export credit agencies and the International Financial Institutions conduct their loan agreement negotiations in great secret.

Conclusion

As the IMF **has** concluded in its recent World Economic Outlook, there is now an accelerating pace in the polarisation between developed and developing countries. **This** can in large part be laid at the door of the unfavourable terms under which developing countries are expected to trade with richer countries in the North. These poor terms of trade, combined with compulsive lending by developed countries wanting to promote their own exports, is leading to higher levels ***of*** indebtedness in developing countries. Furthermore the levels of debt have become unsustainable, and increasingly developing countries are just not able to pay. This, in **turn,** is undermining the credibility of international financial relations between debtors and creditors, and in particular of the **Paris** Club of OECD creditors.

[10] See ***Financial Times,*** 12 May, 1997 and ***Jubilee 2000 News,*** No. 3, February, 1997.

Such polarisation and increase in indebtedness will add to the instability of the international financial and trading system. Instability will harm all of those who engage in international trade. For these reasons we call on the countries of the European Union to take the lead in ending the "schizophrenia" inherent in both European and US trading policy towards developing countries.

Presentation by H. E. Edwin LAURENT, Ambassador, representing the Eastern Caribbean States to the European Communities

1998 will be the 50th Anniversary of the multilateral trading system and a critical assessment of its impact is most opportune. Certainly credit is due to a structure which provides a framework for trade development and the resolution of conflict without resort to violence and war.

Its general aims are most commendable and of universal relevance, viz. having trade policy conducted with a view to raising living standards and ensuring full employment and better incomes. However, the actual record of the GATT and the more recently created WTO, the crowning achievement of the Uruguay Round, have been more checkered.

The area in which the lack of progress is most stark has been in addressing the special needs of the least developed and vulnerable members of the trading community.

Developing countries now constitute 4/5 of WTO membership. True, many of these have gained from the liberalisation ushered in by the Uruguay Round but upon closer scrutiny, it becomes evident that it is those whose economies are already more mature and diversified, which have been able to take advantage of the new export opportunities. Conversely, those which have fared worse are the developing countries with relatively weaker economies and still dependent on a narrow range of primary commodity exports to one or two target markets. During the 1990s, the least developed have seen their share in global exports halved to a paltry 0.6% of the world total. As Sir Leon Brittan said at the WTO Ministerial Conference 'mere membership of the WTO does not alas guarantee any benefit from recent developments in the global economy'

Other countries such as mine are in the same boat, because of their smallness and insularity, fragile, vulnerable and open economies, dependence on a single commodity export, they too are structurally disadvantaged and unable as yet to compete in the global economy. Existing in this 'grey area', they too lack the economic and institutional ability to take advantage of the opportunities coming with liberalisation. Just like the so called least developed, they need special attention if they are not to be further marginalised.

These countries joined the WTO, many as founding members, under little illusion as to what to expect, knowing full well that few concrete benefits were on offer to compensate them for their sacrifices.

Whilst it is understandable that the WTO itself, the World Bank and the IMF will be trumpeting the potential gains of liberalisation, it is unfortunate that they have paid insufficient attention to assessing the costs of the recent changes to the multilateral trading system. To their credit UNCTAD and several NGOs have been among the few to take a more objective and balanced approach to this assessment.

What is it which prevents these countries from benefiting fiom liberalisation, is that they are structurally disadvantaged, they do not have the capacity to competitively produce and export what is required by the global market. What they need is not just technical assistance but concrete measures to **maintain** and improve market **access** and promote foreign investment. The simultaneous challenge to the countries themselves is to adjust their fledgeling economies to the new trading realities. However, **this is** only feasible with an adequate period of transition, the duration of which will depend on the particular circumstances.

The WTO must itself be more attuned to the needs of poor countries and be careful to ensure that they too benefit from the system.

By contrast, those international players which have no problems are the transnational corporations. Already **1/3** of all international trade is conducted between affiliates within the same TNCs. The liberalisation which they had lobbied for **so** hard during the Uruguay Round negotiations gives them the freedom to buy and sell in ways most beneficial to themselves. I wonder how many signatories in Marrakesh in 1994 would have guessed who really would have been the first to gain fiom the fruit of their labours?

Let me deal with one concrete case which demonstrates just this concern. I refer to the banana dispute now before the WTO. The Deputy Prime Minister of Jamaica warned that the Dispute Settlement Mechanism 'should be kept under careful review so **as** to ensure that all parties to disputes have equal opportunities to present and defend their interests and that procedures are fair and transparent. Ifthe mechanism is used as a blunt instrument, it will quickly fall into disrepute at best. At worst it will be a cudgel for judicial coercion of the smaller trading partners.'

This warning is particularly poignant when we consider the unfolding of the dispute surrounding the EU banana regime which safeguards the market benefits of ACP and EU suppliers. By 1995 the multinational Chiquita had stepped up its offensive against the regime. Because of its minimal involvement with ACP and European bananas, it did not stand to gain as much as its competitors from the incentives offered to market those bananas. It was able to get the **US** trade representative to undertake investigations of the regime under Section 301 of the **US** Trade Act. The mind-boggling methods apparently used by the company to exert influence over the **US** government were well documented in the US press during recent months. In the end, with support fiom four Latin American suppliers, the US, which does not export a single banana, was able to get a Panel established.

From the outset, 'the cards were stacked against **us.'** ACP countries were disappointed with the make up of the Panel. The three members selected by the WTO had little if any background in the problems of developing countries despite the fact that the arguments at the heart of the dispute centre on these issues.

But worse was to come. The full participation of the ACP suppliers was denied, despite the proceedings being undertaken to adjudicate on a matter vital to their trading and economic interests, the **ACP** were denied full participation. Quite absurdly, they were accorded no more rights than Japan for instance, but much less than the US which is not even an exporter of bananas.

Most appalling was the expulsion of the ACP legal advisers although duly accredited members of the Saint Lucia delegation. This was unjustifiable and outrageous because:

- it violates the sovereign right of governments to nominate their own representatives. · the denial of the facility to engage specialised legal counsel as needed would entrench the disadvantage of small countries in the WTO since unlike the more advanced WTO members they evidently could not afford to retain such expensive experts on a full-time basis.

All this led observers to question the even-handedness of the arbitrators in this dispute and the prospects for informed and fair consideration.

But for our countries, this dispute is not about ordinary trade matters. Without the regime, we will not be able to sustain an export industry which has transformed our countries, turning plantation workers and subsistence peasants into small but viable and independent farmers and employs **one** third of the labour force. The WTO threat has placed in jeopardy an industry which is essential to our economic, social and political stability and most of all to our prospects for sustainable development. **As** St. Lucia's Prime Minister put it recently to President Clinton 'We are trying to reorganise and adjust the banana industry to the new demands of world trade. If the process of adjustment is suddenly truncated by the US through the WTO, then the pressure will be too great for these small countries and they will crack.'

The Panel ruling would be a disaster for us and for other banana suppliers including some of those which actually supported the US in its fight. The only real but massive beneficiary will be Chiquita and maybe one or two other transnationals into whose hands the entire benefits of the regime currently **shared** among exporters, EU suppliers, various operators, etc. will be transferred. The legal arguments contained in the **1400** plus pages of the Panel reports cannot mask this underlying but grotesquely unfair consequence of their piece of work. Surely the rules of the WTO must have sufficient flexibility to enable them to take into account vital economic and social factors at stake.

The ACP therefore at last month's joint Council with EU ministers called on the EU 'to appeal forcefully and firmly against the ruling and, whatever the outcome to safeguard the interests of ACP suppliers to the EU market, not simply because it is required by the Lome Convention but because it is essential for the well being, stability and sustainable development of these countries.'

This was very much the conclusion arrived at a few days ago by the members of this Parliament who went to the Eastern Caribbean to find out for themselves what exactly would be the impact of implementation of the Panel's ruling. They spoke with our Prime Ministers, Ministers, opposition leaders, farmers, trade unions, NGOs and many others. Please listen to the messages they have brought back and to what they have to say.

Let me though take this opportunity to commend the participants, Glenys Kinnock, David Thomas and Terence Wynn of the **Socialist** group and Blaise Aldo of the EDA who participated in the mission as well as Bernard Castagnede of the ERA, Liam Hyland of the EDA and those others who had intended to participate but in the end were unable to .

The ACP owe them a deep debt of gratitude for their enlightened and courageous approach to assessing and supporting the interests of our countries often in the most difficult circumstances. Mr. President we recognise that Parliament, as the only directly elected organ of the EU has a special legitimacy and credibility in articulating and reflecting the views of ordinary Europeans in matters of public concern. It therefore needs to make itself heard on the issue of the right of the European consumer to have access to ACP and EU bananas produced with minimal chemical inputs on small farms which pay decent wages and respect workers rights. The US Trade representative, Mrs. Barshefsky said in Singapore that the WTO must reflect the needs of various constituencies in order to remain viable but I would say, that in order to remain credible, it must serve the needs of all constituencies, of the rich and poor alike.

Yes, trade liberalisation is quite laudable but when it becomes an ideology demanding blind adherence, it proves counterproductive. Even fundamental principles must be balanced against conflicting rights and practical considerations. Every system of law must allow for sufficient flexibility so as to accommodate special situations. Similarly, the pursuit of free trade in the context of the W O cannot be effected in such a way as to sacrifice the very existence of members of the WTO. If the WTO is to secure world-wide respect and acceptance, it must proceed in a balanced and flexible way towards the liberalisation of world trade.

Presentation by Mr TRÂN Van-Thinh, former Head of the EU Delegation to the International Organisations in Geneva

The globalization of the economy and trade: a double-edged phenomenon for the developing countries

N.B. This article, which is being published in English in issue No 2 (April-June 1997) of the journal WorldAffairs (New Delhi), infact deals with the same topic selected by the Committee on Development and Cooperationfor its meeting of 21 May 1997

The backdrop: the emergence of a new world order

1. Since the fall of the Berlin Wall, the divisions between the different and opposing economic and social systems eliminated ever more rapidly and the barriers are falling one after the other. In future, it will be the markets, their signals and rules, to differing degrees, which govern trade, competition, growth and development.

2. The countries which previously had a centrally planned economy have vowed to act resolutely to make the transition to the market economy, which is the current panacea. The developing countries are implementing the 'creed' of the open economy and trade liberalization, even going so far as to invent the socialist market economy. At the same time in the rich and industrialized countries, however, the 'paradise' of the new capitalism is plunging entire production sectors into hell and marginalizing major population groups.

3. Now at the end of the century apparently contradictory and in any case erratic movements, are causing in real time panic, gloom and excitement in the stock exchanges of the entire world. The financial markets in practice escape the control of the central banks and governments. The total reserves of the central banks are of the order of US$ 1 400 billion, i.e. only slightly more than the $ 1 300 billion traded every day on the currency markets. The annual volume of financial and monetary transactions (about $350 000 billion), which represents 60 times the value of annual world commercial trade of the order of $6 000 billion in 1995, and the huge mass of capital (related products alone account for transactions worth $47 500 billion) likely to move across national frontiers with great mobility already indicate the initial moves towards an economy which is in the process of globalization with semi-automatic interconnections and interactions. It is impossible to reverse the interdependences. Today, 50 years after Bretton Woods and Havana, the economy can no longer be taken as a simple grouping of national economies. Nor has it yet been completely globalized. It is still a complex reality, both national and global, a hierarchy which is strongly interwoven and with international, transnational and multilateral strands.

4. This reality masks another older, more immediate and exponential one, namely that of drastic structural and economic imbalances which were latent here and there in the dominant economies in particular and which erupt with the relentless globalization of the economy: the marginalization of a considerable number of those at the bottom of the pile because of the rigours of the system of a

market without a social security safety net adapted to the new global structure. Globalization often destroys old jobs but it generates riches for the future, although causing distress and harm to those who do not understand it.

5. In short, on the threshold of the third millennium, our rapidly changing world is undermined by the aggravation and multiplication of imbalances and disparities which are sometimes deep and often extreme: over-population and under-development, growth and ecological degradation, wealth and misery, excess amounts of food and famine, with a constant background of marginalization, exclusion and mass unemployment. Unemployment, which is the gangrene of these closing years of the century: structural unemployment, cyclical unemployment, technological unemployment, with 20 million unemployed in Europe and 270 million without jobs in China by the year 2000. This unemployed jobless ratio is sufficiently illuminating to be able to be projected globally between rich regions and deprived areas in order to indicate the explosive imbalance which must be brought under control during this decade. In a globalized and closely interlinked economy national frontiers will have no effect on the exodus or entry of those without jobs in the future.

Above all, the real revolution which is stimulating and guiding the globalization of the economy is technological and numerical. The new information technologies effectively eliminate frontiers, alter production methods and change our way of life and consumption. They generate productivity, create jobs and, for those in the least developed countries who are aware of the prime importance of grey matter (SOFTware-econOMICS), they can be used to skip stages, with new models of development which do not involve heavy and costly industrialization..

In any case, in all countries without exception these technologies must be understood if they are to be mastered to find or rediscover the path to growth. Without growth there will be regression and impoverishment.

Aggregation of the instruments of economic policy

6. In global terms, how should we manage these emerging realities of an economy which is in the process of globalization and is multipolar in structure? What is the effect on the developing countries?

The principle is to accept, rather than be subjected to, this new world, by calling into question and challenging the rigidity, protection and sluggishness and also the bureaucracy.

7. The response to the phenomenon of globalization is the aggregation of the instruments of economic policy at world, national and domestic level. To put it plainly, at both national and international level where interaction is developing inexorably it is no longer possible to carry out isolated and specific economic policy measures without the support of and in conjunction with other measures and other national and international policies. In other words, the aggregation of instruments implies that strategies are coherent at both national and multilateral level. If this is not the case the market economy will lead to an accentuation of imbalances and a general explosion.

8. At international level the Ministerial Declaration in the Marrakesh Final Act on the contribution of the WTO to achieving greater coherence in global economic policymaking, enabled the WTO to conclude the necessary agreements with the World Bank and the International Monetary Fund to allow the three institutions to cooperate 'with a view to achieving greater coherence in global economic policymaking'. This is only the first stage in a tentative process of dealing with a colossal challenge, but the move is excellent. The way will be long and the long march has only just started.

However, it is above all at national level that the essentials must be achieved because 'the task of achieving harmony between these policies falls primarily on governments at the national level'.

9. This is the backdrop **against** which each developing country **has** been creating its links with the rest of the world since the start of the Uruguay Round in Punta del Este in September 1986.

The developing countries endured the Uruguay Round negotiations

10. First of all, it is essential to point out that in all GATT negotiations each country negotiates for itself, with the exception of the Member States of the European Community/European Union for which the sole spokesman/negotiator is the European Commission. Each country negotiates its own obligations and the undertakings it makes and failure to meet them could be subject to sanctions. Clearly, unlike in the United Nations and UNCTAD, the developing countries cannot negotiate as a group. Moreover, the Group of 77 does not exist in GATT/WTO. Information and joint action take place within the framework of an 'informal' group of developing countries. This rule **also** applies to developed countries where the divergence of interests is even more marked.

Thus North-South conflicts remains very discrete and alliances are formed around specific points of interest, the most well-known being the Cairns Group which brings together, under the leadership of Australia, four developed countries (Australia, Canada, Hungary and New Zealand) and ten less-developed countries (Argentina, Brazil, Chili, Colombia, Fiji, Indonesia, Malaysia, Philippines, Thailand and Uruguay) to attack subsidised and protected agriculture.

11. This North-South pattern reflects a situation where negotiation reveals the real situation: under pressure in the sense of 'graduation', the scope of the much-vaunted special and differentiated treatment for developing countries (Part IV of GATT, 1947) was eroded **so** that it could concentrate on the least developed countries and be applied in specific contexts such as subsidies and dumping.

This tendency to limit the scope of the special and differentiated treatment had already became apparent in the negotiation which led to the Punte del Este Declaration in 1986. The developing countries negotiated to resist any erosion of this treatment. Their defensive attitude also extended to other sectors, by confirming their opposition to the inclusion of new areas such as services, intellectual property and investments.

12. It is true that the frontiers of North-South dialogue which were identified during the 1960s **through** the Argentinean **Raul** Prebisch, the promoter of the UNCTAD who succeeded in making the North aware of the Third World, were already tending to blur during the 1980s. The South is now everywhere, in each *country* **(40** million **Americans** live below the poverty line in the richest and most dynamic country in the world), wherever there are imbalances and disparities. Public opinion in the countries of the North has become more cautious and supports selective protectionist measures with regard to certain developing countries.

13. Thus the fight by the developing countries against backwardness has hardly been productive **as** far as the results of the Uruguay Round are concerned.

14. During the negotiations there were in fact hardly any tangible initiatives on the part of the developing countries and, despite a clear improvement by comparison with previous Rounds, the majority of them in the Uruguay Round followed the movement without participating in it very actively. They hardly negotiated for the future and preferred to concentrate on improving the present situation. Their efforts concentrated on traditional and sensitive areas such as tropical products, textiles, safeguards, dumping and industrial subsidies.

Textiles, for example, which represented a real rout for the developing countries, illustrated their weakness. If the future reintegration of the trade in textiles and clothing into the normal multilateral rules constituted a major **success** in objective terms, the conditions and arrangements for reintegration were not favourable to those developing countries which were competitive exporters. The cohesion between developing countries was lacking and a good number of them were happy to fall in with the market management system which protected the weakest and the newcomers from competition.

15. Overall, while the results of the Uruguay Round are very positive for the multilateral system and for all the countries which participated in it (all gained and there were no losers), the advantages gained are much more substantial for the advanced partners than for the developing country partners.

A favourable balance

16. Nonetheless, overall the balance is favourable to the developing countries.

However, if the favourable prospects are to be identified, it is necessary to go beyond the traditional evaluation methods.

17. In a classic assessment the institutionalization of a strengthened multilateral trade system is highlighted, on which the security and predictability of trade depends. Such an institutionalization thus helps to speed up sustainable development in the developing countries, in particular where its mechanism for the settlement of disputes is a deterrent for the protectionist and unilateral impulses and tendencies. The creation of the WTO is not simply the completion of the grand design of the Havana Charter, an unfinished symphony with the aborted plan for the international trade organization. The aim of its promoters was to place it firmly in the context of the rejection of all forms of unilateralism by seeking to give it the name **Multilateral** Trade Organization. However, in the end they had to accept as a compromise the term **World** to accommodate the American partner with its Congress which always has unilateral impulses.

18. A classic assessment naturally quantifies and accounts for the gains in access to the markets for the developing countries.

19. The classic assessment also highlights the laborious and considerable efforts by the developing countries to implement the Marrakesh agreements. In this respect the efforts of the WTO in their favour and for the benefit of the countries in transition in the field of 'technical cooperation and training' should be recognized. These efforts affect current members and also candidates for membership.

20. The guidelines adopted by the Committee on Trade and Development on **15** October identified two key objectives :

- assist in the full integration of beneficiaries into the multilateral trading system and contribute to the expansion of their trade;

- ***strengthen*** and *enhance* institutional and human capacities in the public sector for an appropriate participation in the multilateral trading system; and this should be stressed as an innovation whenever possible and in consultation with the government concerned, capacity building activities could include representatives of the **private sector.**

Since January **1996,** a total of **124** technical cooperation activities have been organised : **43** held in *Africa* in the year **1996, 23** in Asia, **16** in Europe, **26 in** Latin America and the Caribbean, **11** in the Middle East and ***5*** in Oceania.

All these activities are financed by the general budget of the **WTO** (about **$1 300** *000* for **1997)** and by the 'WTO Trust Fund for Technical Assistance' (about $4 **700** *000* in commitments for **1996)** which was originally set up by Norway and in which, for various specific and precise activities, contributors as varied as the Scandinavian countries, Switzerland, Japan, New Zealand, the Czech Republic, the European Union, the European Commission, Italy, Denmark, the Netherlands, the World **Bank,** the Asian Development **Bank,** the US Agency for International Development and the Nordic Training Fund are involved.

21. A classic assessment also gives the structure of the composition of the members of the WTO and of the candidates for accession to the WTO. These pictures make it possible to analyse and measure the potential of relations between the developed countries, the developing countries and the countries in transition.

On 1 January **1997** the **WTO** had **130** members. It should be noted that as an organization the WTO is unique in bringing together not only sovereign states but also separate and autonomous customs territories (such as Hong Kong and Macao at present) and even including a power which is developing and is in the process of integration (the European Union via its European Communities). Among its **130** members, there are **87** members in the process of development against ***33*** developed members, of which ***6*** are in transition.

On **1** January **1997** there were **29** candidates for accession, of which **15** countries in transition, including Russia, **12** developing countries, and also China and Taiwan (as a separate and autonomous customs territory).

22. Lastly, with a little leeway to take account of the first two years of application of the Marrakesh agreements, the classic assessment evaluates the functioning of the dispute settlement mechanism which is the real spine of the multilateral trade system and which demonstrates the increasingly **firm** commitment of the developing countries in this mechanism which is specific to the W O and unique in the world.

On 1 January **1997** there were **41** appeals by developed countries, **17** by developing country members and 10 jointly from developed and developing country members. These appeals, which covered **45** different subjects, gave rise to **68** requests for consultations. They were resolved in **16** cases, either by withdrawal of the complaint, or by mutually acceptable solution and concluded in three cases by the adoption of 'appellate reports'. In one case the 'appellate report' was distributed pending its adoption, in one **other** case the report of the panel was the subject of an appeal, in 12 cases the panels are sitting, in three cases the applications for the setting up of panels have been lodged and in **23** cases the consultations are in progress. It is interesting to note that in five cases the complaint is by a developmg country member against another developing country member and that in four cases the developing country members are the subject of a complaint by the developed country members.

23. Up to now the mechanism appears to be functioning correctly with its dissuasive effect in the background. But it would be sensible in time to deal with the question of the inability of a weak partner to operate 'authorized sanctions' against a much stronger partner: failing the possibility of a 'collective sanction', which is much more dissuasive, the mechanism for settling disputes is not really at the disposal of the economically weak countries.

24. The evaluation is thus promising. It would be even more significant with the addition of the illumination provided by the realities of life, which the rules and mechanisms cannot replace.

This is the result.

At Midrand in June 1996, the ninth UNCTAD conference marked a decisive stage in the move of the whole of planet **earth** towards liberalization of the economies, which is a fundamental and permanent objective of the multilateral trade system, by delivering a two-fold message: firstly, despite the dangers and traps which it involves, the liberalization of trade will bring a fair amount of prosperity for the **first** time in **history** to some 2 billion people living in developing economies; secondly and even better the transnational firms represent an opportunity for development for the poor economies. In other words, **as** it is the undertaking itselfwhich is the engine for growth in real life, the development of the undertaking becomes synonymous with development in general and in particular in the least developed countries.

25. The fact that UNCTAD had the clear vision and the courage to bring about its change in conjunction with the mission accomplished by the WTO has revitalized it. It is a superb tribute to realism that UNCTAD trapped in the politicization of a north/south confrontation which is now a thing of the past has found a way out of its agony. UNCTAD owes its second life to the Brazilian, Rubens Ricupero, who drew on his experience and knowledge of GATT and of real life.

Moreover, UNCTAD, under the leadership and prompting of Rubens Ricupero, has developed exceptional knowledge and experience in the field of development-related investments. Foreign direct investments (FDI) are an irreplaceable source for development and the developing countries are not exempt flom **this** reality, which confirms the role **of** the undertaking and the transnational companies.

Let **us** listen to the message and discover the 'seeds' which would encourage the development of the undertaking, starting flom the following simplistic premise: the undertaking manufactures where the cost of the product is competitive and sells where there is a solvent purchasing power.

An assessment for the future following the Ministerial Meeting in Singapore

26. The **first** viable seed was **sown** by the Italian Renato Ruggiero who wanted and obtained in Singapore the 'Comprehensive and integrated W O plan of action for the least-developed countries'. This is the proper response to the North/South disparity and the marginalization of the least-developed countries.

The Plan of Action "*is in conformity with the Marrakesh Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy making, a central purpose of which is to contribute to the* ***expansion*** *of trade, sustainable growth and development of developing* ***countries,*** *including least-developed countries, through the closer cooperation of the WTO with the World Bank and the* ***IMF'.***

27. The second viable seed relates to the *"Ministerial Declaration on Trade in Information Technology Products"* adopted on 13 December 1996 in Singapore. 28 economies (including Indonesia, Korea, Singapore, Hong Kong and Taiwan), accounting for well over **80%** of world trade in information technology products, **agreed** in Singapore to eliminate customs duties and other duties and charges on these products through annual reductions beginning on 1 July 1997 and concluding on 1 January 2000. It is a good omen for the information revolution (see paragraph **5** above): exports of **ITA** products amount to more than $500 billion annually. Trade in this sector is now larger than world exports of agricultural products and it **is** currently the fastest growing industry and concerns five main categories of products: computers, telecoms products, semiconductors, semiconductor manufacturing equipment, software and scientific instruments.

28. The third viable seed is the setting up of the working group to examine the relationship between trade and investment. The Ministers made clear that the work undertaken shall not prejudge whether negotiations will be initiated in the future. But in this field the multilateral contractual rules cannot be changed and it could be a case of guiding or channelling the considerable freedom of the transnational companies. The text of this ministerial decision includes considerable praise for UNCTAD, referring to the Midrand Declaration and a call for support from the UNCTAD.

29. These three viable seeds do not however, hide certain clouds, such as for example that which casts a shadow on the development of regional agreements. Is it known that at present **GATT,** followed by the WTO have received notifications of 152 agreements, those notified under **GATT** Article **XXIV,** those notified under the Enabling Clause and **those** for which Waivers have been given ? The list includes both agreements in force and those which have been superseded or cease to exist for other reasons. The ministerial declaration takes note of the situation and raises questions. **"** ...*We note that trade relations of WTO Members are being increasingly influenced by regional trade agreements, which have expanded vastly in number, scope and coverage. Such initiatives can promote further liberalization and* ***may assist*** *least-developed, developing and transition economies in integrating into the international trading system. In this context, we note the importance of existing regional arrangements involving developing and least-developed countries. The extension and extent of regional trade agreements make it important to analyse whether the system of WTO rights and obligations* **as** *it relates to regional trade agreements needs to be further clarified. We* ***affirm*** *the* **primacy of** *the multilateral* ***trading*** *system ..."*

Transition towards the future

" ... ***We meet at a time which is one of transition in the trading system ... because the process of global economic integration is moving on rapidly, and has indeed gone past the point of no return ... our system is changing because the world economy is changing. Information, know-how, ideas - these are the new forces that are driving the global economy forward ... this is why liberalization is the wellspring of progress for all the world's people*** ..." (excerpts fiom the speech made by Renato Ruggiero at the opening of the Ministerial Conference in Singapore).

The globalization of the economy is irreversible. It can be of benefit but it can also cause harm. In what form and at what speed should the transformation and the adaptation of national economies take place? These are the questions which model the impact of the phenomenon on daily life. The American option based on deregulation, fiee trade, flexible working practices and the dynamism of the private sector? The European option of the social market economy, where istead of the welfare state, there is more effective action by the state? Other options? These are the formidable dilemmas in dealing with the devastating effects of a market economy without checks and without moderation.

The market economy, the new capitalism seems invincible and unconquerable. But should wealth be allowed to cause poverty? Is it possible to rediscover other riches and other satisfactions apart fiom purchasing power and unnecessary consumption? Should money be allowed to subjugate human nature? Should money and bureaucracy be allowed together to bring about corruption? Should development and prosperity be allowed to destroy the landscape? Should the economy, and its corollary competition, be allowed to cause tensions, conflicts and wars between people?

The economy is there to serve mankind.
The economy should not give rise to new totalitarian regimes.

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