

The Future of the WTO

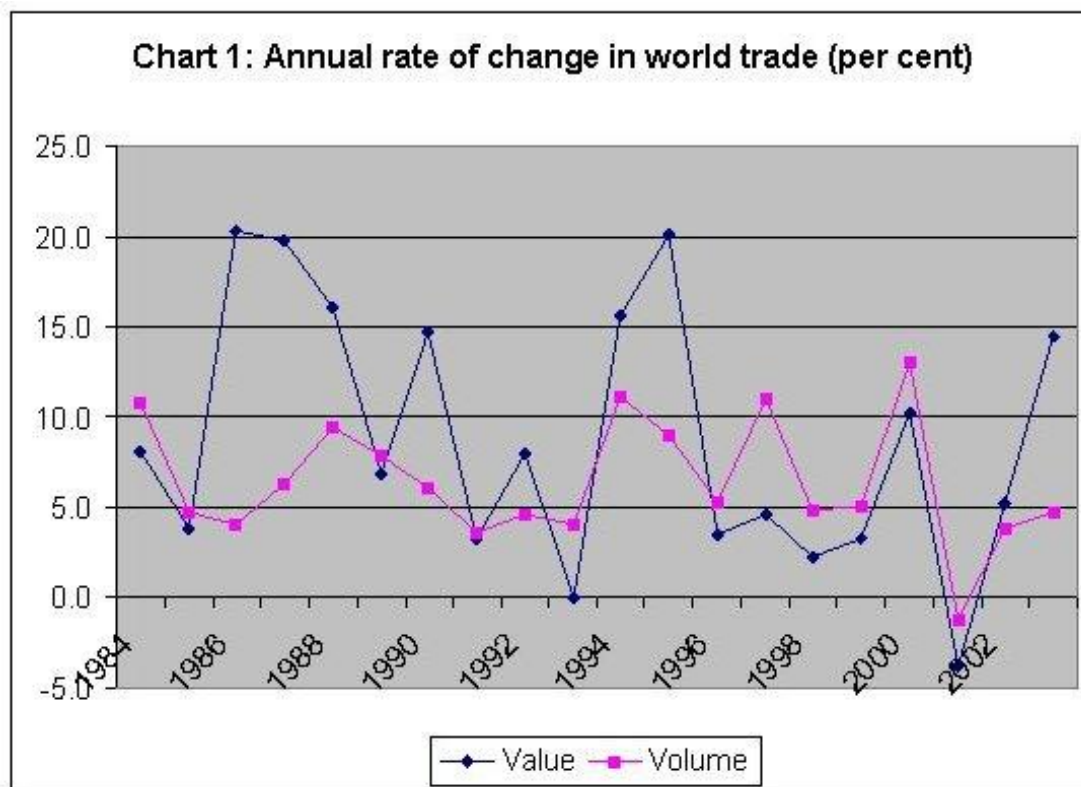
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It is reasonably obvious to all concerned that the WTO, and indeed the multilateral trade negotiation process which underlay it, is in severe difficulty if not crisis. A significant proportion - possibly the majority - of its members are unhappy over the lack of delivery of the promises of the Uruguay Round and the manner in which the organisation itself is functioning.

Developing countries in particular feel that they have been short-changed, forced into trade liberalisation patterns that have had de-industrialising effects and created agrarian crises, even as the promised benefits of increased market access in agricultural commodities and textiles have been denied them. The spirit of the Agreement on Agriculture and the Agreement on Textiles and clothing has been breached not only in the small print of these agreements but in their implementation as well. Developing country governments also feel increasingly hemmed in and their citizens feel exploited, by the range of new rules that affect non-trade policies within the country, including those relating to intellectual property.

Meanwhile, even developed countries are less than enthusiastic about the multilateral process, which makes complete domination difficult and does not allow for even more aggressive opening up of markets of other countries. The United States in particular has for some time treated WTO rules and decisions with a degree of contempt when these do not suit its government, even while it had used it as an instrument of pushing for trade liberalisation in its favour. Both the US and the EU are also voting with their hands, so to speak: signing a plethora of bilateral and regional trade agreements outside the scope of the WTO, such that such deals now cover more than 70 per cent of world trade.

What is even more compromising to the early proponents of the Uruguay Round is that the most massive trade liberalisation the world economy has ever experienced has been accompanied by no commensurate increase in trade flows. Chart 1 indicates the annual rate of change in world trade in volume terms as well as in nominal (US dollar) values. It is immediately evident that in the period after the signing of the Uruguay Round agreement and the formation of the WTO (that is, 1995 onwards) world trade experienced no greater trend of growth and possibly even greater volatility, compared to the previous decade.



In addition, the functioning of the WTO itself has come in for severe criticism. Two of the Ministerial Meetings - at Seattle and then at Cancun - failed to come to any agreement at least partly because of developing country members' disgust at the heavy handed manner in which the secretariat sought to impose its will (largely reflecting US-EU positions), influence the discussions and avoid democratic decision-making. The infamous "Green Room" discussions of WTO negotiations, in which small groups of developing countries have been "persuaded" or forced to accept decisions they had initially opposed, have been exposed by Aileen Kwa and others. Even the Dispute Settlement procedures have become another hurdle especially for small developing countries who find them extremely expensive, cumbersome and unduly prolonged.

Clearly there is much to reform in both the process of negotiations and in the functioning of the WTO. In this context, it is not surprising, and it is certainly desirable, that the WTO itself instituted a special commission to look into these matters, focus on institutional issues, and provide recommendations to reform the way the organisation works and how decisions are made. This represented a tremendous opportunity to address some of the most glaring problems and try to reform the WTO in ways that would give it at least a minimal degree of legitimacy among the people of the world.

Sadly, however, this opportunity has been squandered. The report of the Commission thus set up ("The Future of the WTO", Geneva: WTO, 2005) is no more than a rather weak justification and defence not only of the entire set of principles on which the trade negotiations have been based, but also of the clearly problematic workings of the WTO. There is not even an attempt at cosmetic repair; rather, the existing unsatisfactory system, warts and all, is held up as a model to be further pushed.

This may be related to the composition of the Commission, which is headed by Peter Sutherland, the first Director-General of the WTO and presently Chairman of two major international conglomerates of finance and industry: Goldman Sachs International and

British Petroleum. It also includes among its eight members the most vociferous advocate of free trade, the Indian economist Jagdish Bhagwati.

At any rate, the Report disappoints because it treats all the concerns and criticisms of the functioning of the WTO merely as so many debating points, without any serious attempt to evaluate the genuine need for reform. Therefore, the proposals it provides are so lacking in imagination that they simply advocate doing more of the same, and more aggressively than before. Where the functioning of the WTO and the negotiation process have been undemocratic and non-transparent, it actually suggests formalising these features rather than changing them.

The basic assumptions of the Commission are clearly laid out in the opening chapters. It is an axiom for the Commission that trade does inspire growth and growth will combat poverty. This is accepted so uncritically that the evidence on recent deindustrialisation and associated lack of employment in developing countries is simply not considered: all this is simply blamed upon technological progress.

Within this, the WTO is seen as a force only to the good. "The WTO provides a level playing field with a credible referee dealing even-handedly with the players". (page 15) What would subsistence peasants in Central America, whose cultivation has been rendered unviable by cheap imports of highly subsidised maize sold by giant US corporations, make of this? Or the millions of small producers across the world whose livelihood has been wiped out by import competition driven by large companies?

Similarly, "the WTO constrains the powerful" (page 18). No doubt that is why the share of MNCs in global trade has increased dramatically over the past decade, and concentration in all major spheres of economic activity has accelerated greatly. In any case, any shortcomings are not because of the WTO system but because individual member countries are unable to avail of the manifold benefits: "The WTO is about providing opportunities - it does not provide guarantees nor does it provide all the conditions for participation in the global economy." So if people are suffering as a result of trade liberalisation and increased patent-based monopolies, it is their own fault.

In any case, the Commission clearly feels that enough time and energy has already been spent on dealing with all the carping from the world's poor and on weaker member countries. "The time and effort that has been expended in recent years in the WTO and associated agencies in addressing the needs and handicaps of the world's smallest and poorest countries in the trading system is remarkable, by any standards." (page 17)

Another concern of member countries, that WTO rules are increasingly interfering in domestic economies and constraining the policy autonomy of governments, is given short shrift. According to the Commission, "in the context of the WTO, the complaint over sovereignty is a red herring" (page 29) and is in any case misplaced because governments can now apparently "reclaim control at the multilateral level". (page 34). Which governments can really do so, and how, are questions that are conveniently left unanswered.

With such a framework, the conclusions and recommendations of the Commission, alarming as they are, come as no real surprise. The Report condemns preferential trade agreements (PTAs) - except, naturally, the European Union and NAFTA, which are supposed to be all right because they apparently encourage a more positive attitude to multilateralism! The PTAs of developing countries, by contrast, such as Mercosur, are seen as undesirable

because they only involve trade diversion and are somehow different from the NAFTA and EU in becoming stumbling blocks to the multilateral process.

Special and Differential Treatment for developing countries in WTO comes in for even sharper criticism. The Report argues that this has been based on two assumptions: first, that demands for reciprocal concessions from developing countries are inappropriate because of the different effects of trade liberalisation; and second, that in any case the markets of developing countries are so small as to be insignificant and so concessions do not really matter. The Report argues that neither of these assumptions is valid, since developing country markets have grown and because it sees a strong case for the benefits of trade liberalisation in all cases.

In consequence, the Commission finds too many "fault lines" in S&DT. While the Report does not go so far as to suggest the complete removal of S&DT, it does suggest that "these mechanisms require further study and research" (page 24). Even the Generalised System of Preferences for developing country exports (GSP), which have played such a role in encouraging some basic industrialisation in developing countries, are dismissed as having had little positive effect.

The combination of preferential trade agreements, S&DT and GSP is seen to have created a "spaghetti bowl" of discriminatory preferences that is clearly anathema to the simplicity beloved of the Commission. So they advocate reducing all most-favoured nation tariffs to zero, which would clearly eliminate the spaghetti bowl problem! Note that quite apart from anything else, this approach is extremely unfair to developing countries where tariffs remain the dominant form of protection, unlike developed countries where non-tariff barriers now dominate. Given the havoc already created in the production systems of the South through the trade liberalisation experienced so far, this proposal is breath-taking in its ignorance of reality.

Some of the most important recommendations relate to the functioning of the WTO and the entire process of trade negotiation, about which there has been much valid criticism. Clearly, the Commission is unhappy with even the veneer of democracy that is currently maintained in the WTO. The consensus approach is obviously preferred over voting (which would give developing country member a majority), but the problem with consensus building is that "the majority's will can be blocked by even one country".

In fact, the Report ends up advocating instead the plurilateralist approach which was already suggested by the EU and has already been rejected by developing countries. Here it has been renamed "variable geometry approach", but it still involves "opt-in" and "opt-out" possibilities such that some members may choose to take on more obligations.

Also, the Commission is clearly impatient with the slow progress of negotiations, and wants to speed them up by increasing the strong arm tactics already availed of by the large member countries and the WTO secretariat. The Report argues that "Green Room" meetings with limited access are both appropriate and necessary, notwithstanding their undemocratic nature.

It also argues that the "member-driven" nature of the WTO has involved a reduction in the role of the Secretariat, and instead proposes a much-enhanced role for this body. It should be noted that the Secretariat is an appointed body with no accountability, and its activities in the past have indicated a clear bias towards the positions of the large developed countries. Despite this (or perhaps because of this?) the Report advocates a leading role for the Secretariat at Ministerial Meetings. Instead of allowing for election of Chairs and

facilitators of meetings, the Commission wants these to be pre-announced by the Secretariat, and argues that these appointments "should not become part of a further bargaining process."

The remarkable thing about the Report is that it calls for an intensification of all the processes and procedures in the WTO that have been identified by developing country members as part of the problem. The continuation and even acceleration of indiscriminate trade liberalisation without concern for its impact on employment and economic activity, no controls on unilateralism by the strong members especially the US, no protection from the monopolies created by the workings of the TRIPS agreement - all form part of the recommendations of the Commission. And in addition, it calls for formalising the unequal and undemocratic manner of functioning of the WTO.

Despite its claims to be an independent Commission, this is clearly a report by and for the WTO Secretariat. Rather than increasing its international credibility, it is likely to diminish it further.