

Is the world trade system rigged against the poor?

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Let me start by thanking the representatives of the WTO and Ambassadors from Jamaica, Pakistan, the European Union, and Australia for this opportunity to discuss the issues raised by Oxfam's *Make Trade Fair* campaign, and the report – *Rigged Rules and Double Standards* – that sets out our analysis. Perhaps the title gives away our position on the question raised by this seminar: namely, is world trade rigged against the poor. But we welcome this opportunity to exchange views with you.

Perhaps I could start with a short anecdote. As part of the research for our report we interviewed over two hundred people in developing countries, many of them small farmers and workers directly affected by trade. One of them, a young Thai woman, responded to a question about what the WTO does in the following terms: 'The WTO is there to help the big fish eat the little fish. That is what happens in international trade.'

Her comments were not untypical. In fact, they were among the more polite variations on the theme. They reflect a deep and widespread current of opinion that sees the multilateral trading system as a regime debased by the imposition of big power interests, and corrupted by undue influence on the part of transnational companies.

More polite and more technical formulations than those offered by our Thai interviewee could be found. And of course the WTO cannot be viewed in isolation. But there is a widespread and, in our view, legitimate view, that the rules of the game in world trade magnify instead of diminish disadvantage. And there is an equally widespread view that global institutions are failing the poor.

In the brief period since we launched our report, it has been denounced by some as 'anti-trade and anti-market', and by others as a 'neo-liberal' apology for current World Bank, IMF and WTO practices. So let me begin by setting the record straight.

Background

Our starting point is that participation in trade has the *potential* to contribute to poverty reduction in developing countries. But the benefits are not automatic. Trade can also create poverty, inequality, and environmental damage. Realising the positive potential of trade requires rules, policies, and institutions that make markets work for the poor. And it is the failure to develop these provisions that is at the heart of the legitimacy crisis facing the current multilateral trade order.

During her adventures in Wonderland, Alice memorably chides herself for failing to follow her own precepts. 'I give myself very good advice,' she says, 'but I very

seldom follow it'. When it comes to matters of international trade, the European Union and the United States are like Alice, except in one respect: they offer the whole world advice which they don't follow themselves.

Developing countries are pressured to liberalise through IMF-World Bank programmes, while Europe and America remain overtly protectionist. Today, the world's poorest countries face the highest trade barriers. Meanwhile, instead of focussing on measures that could enhance the ability of poor countries to benefit from trade, the economic superpowers are loading the WTO agenda with issues – such as investment, competition, procurement and TRIPS – that weight the benefits of trade in favour of the rich.

Rich countries, along with the WTO secretariat, have made much of the commitment to a 'development round'. Yet for practical purposes what is currently on the table amounts to little more than a modest investment in capacity building aimed at enhancing the ability of poor countries to implement WTO agreements, many of which are not in their interests. Failure to change this picture will leave intact a system that is fundamentally failing the poor.

Of course, international rules are only one factor in creating an enabling environment for poverty reduction. Without effective national policies for poverty reduction in place, global integration can add to the vulnerability of the poor. In this context, questions have to be raised about developing-country governments that demand redistributive measures through the WTO, while resolutely keeping redistribution off their national agendas.

Trade and poverty reduction

History makes a mockery of the claim that trade cannot work for the poor. In East Asia, participation in trade, built on local economic dynamism, created new opportunities for investment, employment and growth. But the expansion of world trade under globalisation, notwithstanding the claims of the WTO-World Bank-IMF 'good news industry', has produced disappointing outcomes.

The potential inherent in trade can be illustrated by a simple comparison. If sub-Saharan Africa, the world's poorest region, were to increase its share of world exports by just 1 per cent, the foreign-exchange gain would represent five times annual aid and debt relief for the region *combined*. Looking beyond financial comparisons, trade offers producers in developing countries access to larger markets and new technologies.

For all the potential benefits of trade, actual results have been disappointing. In the midst of the enormous increase in wealth generated through globalisation, more than one billion people continue to live on less than \$1 a day. Inequalities between rich and poor countries are widening. Indeed, measured by the Gini coefficient, the world as a whole is more unequal than its most unequal country – and it is becoming more unequal.

International trade is reinforcing these inequalities. With only 14 per cent of the world's population, rich countries account for over three-quarters of world exports. At

the other end of the spectrum, low-income countries account for less than three per cent. While a handful of developing countries are 'catching up', most – notably those in Africa - are falling further behind.

These trends matter for poverty-reduction efforts. With trade accounting for a rising share of global GDP, the distribution of trade has an increasingly important bearing on average incomes in developing countries – and on global income distribution.

Within countries, participation in trade produces diverse, and often contradictory, outcomes for poverty reduction. Economists tend to focus just on aggregate, income-based welfare changes, but other dimensions also matter. All too often, the poor lack the assets, skills, and information they need to participate in export markets, or to adjust to import competition. In many cases, export growth is built on high levels of exploitation and the erosion of worker's rights, with women facing particularly egregious practices. Under these conditions, export success often masks human development failure.

The challenge of making trade a more powerful force for poverty reduction really divides into two themes. Increasing the share of developing countries in world trade – and increasing the share of the poor in the benefits generated by trade. Most of my comments today will be directed towards the former challenge. However, much of Oxfam's campaign to Make Trade Fair will be conducted with partners in developing countries seeking national reforms that integrate trade policy into national poverty-reduction strategies.

Double standards in high places: market access and level playing fields

As noted above, Northern governments constantly preach the virtues of open markets whilst practicing protectionism. If they are serious about making Doha a development round, this is one area in which reform is needed.

On a conservative estimate, developing countries are currently losing about \$100bn a year annually as a direct consequence of protectionism in Northern markets. The average tariff facing an export from a developing country entering an industrialised-country market is about four times higher than the average barrier facing industrialised countries. Viewed from the South, the global market place looks like a hurdle race with a difference: namely, the weakest athletes face the biggest hurdles.

There are no signs of the hurdles coming down. Take the Agreement on Textiles and Clothing (ATC). As the International Textiles and Clothing Bureau has shown, barely one-fifth of the US quotas and one-third that were previously under quota restriction have now been phased out. This is a far cry from the 51 per cent that industrialised countries claim has been integrated in narrow legal terms. It also highlights the strong comparative advantage that the EU and the US have developed in complying with the letter of WTO commitment to poor countries while comprehensively violating the spirit.

To underscore the magnitude of the problem, of the \$18.6bn collected in the US on merchandise imports, fully 42 per cent was derived from textiles and clothing – the

single biggest manufactured export from developing countries. Low-income countries such as Bangladesh account for a larger share of US tariff revenue than Canada.

Viewed from countries like Bangladesh and India, where Oxfam is working with women workers in the garments industry, such practices translate into lower wages, lost jobs and –ultimately – more poverty.

Then, of course, there is agriculture. Under the Agreement on Agriculture concluded in the Uruguay Round the EU and the US agreed to liberalise agriculture, based on 1986-88 support levels. As part of the 'gentleman's club' agreement, they first redefined the meaning of the term subsidy through Green Box and Blue Box measures, mainly with a view to continuing business as usual. As we show in our report, both the EU and the US have been exporting cereals at prices 40 per cent or more below the costs of production.

Measured on the basis of the OECD's Producer Support Estimate, industrialised countries have actually increase subsidies to agriculture, which now run at about \$1bn a day. This figure is probably set to rise. The new US Farm Bill will push spending up by \$15-20bn – an increase of 70-80 per cent. Doubtless, the EU and the US will seek a new accommodation in the WTO, but this is not good news for developing countries.

For non-subsidising exporters, farm policies in the OECD are depressing world prices and adding to market volatility. But it is not only major agricultural exporters in the Cairns Group that are losing out. Cotton exporters in Africa and elsewhere are losing \$250m because of US subsidies, according to the World Bank. Meanwhile, heavily subsidised exports are destroying smallholder markets across the developing world, undermining livelihoods in the process. For instance, Jamaican dairy farmers are facing severe problems from cheap imports, as are corn farmers in Mexico.

Developing countries could be forgiven a sense of alarm at recent development in the industrialised world. In order to secure 'fast track' authorisation from Congress, the Bush Administration has signalled a willingness to accommodate protectionist lobbies in steel, textiles, and agriculture. For practical purposes, these three core areas, all of them of vital interest to developing countries, have been removed from WTO negotiations. Meanwhile, both the US and the EU are exerting considerable pressure aimed at shifting the locus of negotiations towards areas - such as investment, services, competition policy, and procurement – where the major winners from liberalisation will be industrialised countries.

Behind the development-round rhetoric, the reality is that a highly unequal bargaining process is emerging. Under this process, developing countries will be forced to negotiate improved market access for goods by offering concessions in areas such as banking, insurance, and procurement.

As in the Uruguay Round, powerful vested interests in the industrialised world are shaping the WTO agenda. The combined weight of assorted farm lobbies, protectionist interests in manufacturing, and transnational companies seeking new markets for investment has left a deep footprint on the Doha Round.

Special and differential treatment

In stark contrast to industrialised countries, many of the world's poorest countries have been liberalising their markets at breakneck speed. Loan conditions attached to IMF-World Bank programmes have been one of the primary driving forces in this process, especially in low-income countries. As the IMF-World Bank and the WTO strengthen co-operation, the pressure to liberalise can confidently be expected to intensify. Is this in the best interests of poor countries seeking to harness trade in the interests of poverty reduction?

The short answer is no, on several counts:

- **Unequal obligations.** Because IMF-World Bank liberalisation takes place on a unilateral basis, developing countries receive no credit for this in the WTO bargaining process. At the same time, one-sided liberalisation inevitably skews the benefits of trade towards rich countries and intensifies balance of payments pressures in poor ones.
- **Unfair liberalisation.** Many of the world's poorest countries are liberalising agriculture at a time when the major exporters are subsidising on a large scale. Under these conditions, comparative access to subsidies becomes a more relevant indicator of competitiveness than comparative advantage.
- **Trade policy needs to be integrated into poverty-reduction strategies.** Developing countries face different challenges to industrialised countries. Successful integrators have for the most part liberalised exports prior to imports, and liberalised in the latter sector after economic growth has been established. Many have used a wide range of trade-policy instruments – including infant industry protection, selective tariffs, restrictions on foreign investment – as part of national strategies for increasing value-added activity in exports.

If developing countries are to maximise the benefits from trade they must have the latitude to adopt appropriate policies. In this context, the erosion of special and differential treatment under the Uruguay Round agreement poses special problems. For practical purposes, special and differential treatment today implies slightly longer timeframes for implementing the same liberalisation commitments as rich countries at far higher levels of economic development.

The need for a new approach to special and differential treatment is especially marked in agriculture. There are pressing reasons linked to food security, rural employment, and environmental sustainability for waiving liberalisation commitments in developing countries. Research into post-liberalisation import trends in fourteen countries carried out by the FAO found import surges across a wide range of product groups, with all countries facing rising import bills and the displacement of local produce.

There is room for debate about the most appropriate forms of special treatment for developing countries. Liberalisation commitments in agriculture could take the form

of a positive list approach; or countries could be exempted from liberalisation commitments on the basis of specified criteria relating to food-security problems, dependence on agriculture, or levels of self-reliance. Various proposals for a Development Box in agriculture have included these elements. Unfortunately, the US, the EU, and the Cairns Group of countries have pre-empted serious dialogue by ruling out special treatment in this area.

One option, especially for low-income countries, would be to waive liberalisation commitments that are inconsistent with Poverty Reduction Strategy Papers (PRSPs). More generally, there is a strong case to be made for a fundamental review of S/D and the development of a more nuanced strategy. There is an even stronger case to be made for the IMF-World Bank removing trade policy conditions from their loans.

The wider agenda

In an opinion piece published last February in the *Financial Times*, Mike Moore advocated the extension of a strengthened WTO regime for investment, allied to the extension of the WTO's mandate to areas such as competition policy and procurement. At the same time, as noted earlier, major industrialised countries are pressing for a strengthening of the GATS and implementation of the Uruguay Round TRIPS agreement.

Serious questions have to be raised about the role of the WTO secretariat in this area. Its consistent willingness to endorse negotiating mandates drawn up in Washington and Brussels has done much to damage public perceptions of its legitimacy and impartiality. More generally, the WTO blueprints that are emerging are, at risk of understatement, not obviously in the best interests of poor people and poor countries.

The TRIPS agreement is a case in point. Without charting the full history of the agreement, it is clear that its central provisions were drawn up by the major industrialised countries and transnational companies that stand to gain the most. The US alone stands to gain 13 times more from the TRIPS agreement than from the Uruguay Round agreement on industrial tariffs.

For developing countries, TRIPS translates into higher prices for technology transfer at a time when access to new technologies is of vital importance to competitiveness in the global economy. As the shocking abuse of the system by pharmaceutical companies in South Africa, and by the US in the case of Brazil demonstrated, TRIPS also has the potential to force up prices for essential drugs needed for the treatment of HIV/AIDS and other diseases.

In paragraphs 6 and 7 of the Doha declaration, industrialised countries finally agreed to a public-health interpretation of TRIPS. Yet there are already signs of backtracking. In particular, the US has resolutely opposed to allow for more flexible rules on granting compulsory licences in countries with strong generic drug industries seeking to export to developing countries lacking such industries. Congress is also seeking to use the fast-track negotiations to reverse the wording agreed in Doha.

As a matter of urgency, the TRIPS agreement should be amended to give legal expression to the Doha declaration. More generally, it is surely time to review the one-size-fits-all approach to patenting enshrined in TRIPS, and to develop a more flexible regime capable of responding to the real problems of poor countries.

Much the same is true in other areas. In short, there are no development grounds for including a foreign investment regime under WTO rules, let alone for yet more blueprints for competition and procurement.

In the specific case of investment, there is no evidence that 'open door' liberalisation strategies work. All too often, as this year's UNCTAD *Trade and Development Report* highlights, they give rise to surges of low-quality investment, weakly linked to the domestic economy, and focussed on low value-added export activity.

Similarly, with regard to services there may be grounds in specific cases for careful, well-regulated liberalisation in specific sectors, depending upon the institutional capacities, resources, and needs of different countries. However, the type of one-size fits all 'big bang' liberalisation advocated by the EU is entirely inappropriate, not least given the unhappy experience of liberalisation in countries lacking effective regulatory capacity.

Agenda for reform

It is no exaggeration to say that the Doha round provides a last opportunity to restore public confidence in multilateralism. To succeed, it needs to become a genuine development round, instead of yet another exercise in power politics applied to trade diplomacy.

In the eyes of the WTO secretariat, the great triumph to date has been the increase in industrialised-country support for capacity building. Leaving aside the small sums of money involved, this assessment is wrong. What is the value to poor people in developing countries of running legal seminars and technical workshops to enable civil servants to implement and administer agreements drawn up by rich countries?

Surely real capacity building requires support for developing countries to develop their own capacity to assess the implications of trade policies, and – critically – to ensure that their own entrepreneurs, civil-society organisations, and academic researchers can inform negotiating positions. It may never be possible for poor countries in Africa to draw on the services of big business in the manner of the EU and the US, but far more could be done to equalise what is now a highly unequal bargaining process.

Looking to the broader agenda, there are at least five themes that would be included on a checklist for a successful development round:

- 1 Market access: Accelerated tariff reduction for low-income countries, coupled with an accelerated phase out of the MFA.
- 2 Agricultural subsidies: An agreement to phase out all agricultural export subsidies, both visible and disguised.

- 3 No new issues. Competition and procurement should be kept off the agenda, along with strategies for the extension of rights for foreign investors.
- 4 Services. Cast iron safeguards to limit the liberalisation agenda and protect basic services
- 5 TRIPS. A review of the impact of the current regime, allied to practical measures to remove restrictions to developing country exports of generic drugs.
- 6 IMF-World Bank. An end to enforced liberalisation in developing countries through loan conditionality.

Admittedly, this is a partial agenda. It does not represent the full range of measures needed to deliver on the potential of trade as a catalyst for poverty reduction. However, it would represent a step in the right direction – and it would start to restore the credibility of the WTO.