

GREED VS EQUITY



'THE WTO and its FALLOUT'



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What is WTO?

The acronym WTO expands to read World Trade Organisation. It is currently the sole international organisation dealing with formulation and implementation of the rules of global trade between nations; and is based in Geneva, Switzerland. The WTO was born on January 1 1995, and is a fairly young organisation. Its creation was in fact, a result of the Uruguay Round of talks under the General Agreement on Tariffs and Trade (GATT), which ran through 1986 to 1994. This, in turn, was a direct fallout of the Brandt Commission recommendation of 1979 to create an "international trade organisation incorporating both the GATT and the UNCTAD."

According to the highly influential Ricardian theory of comparative advantage, differences in efficiency and cost of production of various goods across countries can lead to mutually beneficial trade through specialisation in production in areas of comparative advantage. If transactions between parties could be spontaneous because they are mutually beneficial to the parties concerned, then one can argue against the need for a multilateral institutional framework like the WTO, with mutually agreeable and enforceable rules.

The answer to this poser lies in the fact that such natural advantages, as assumed in Ricardo's theories, do not effectively exist in the real world. With all kinds of indirect support from governments to domestic producers, by way of subsidies, duties, tariffs and non-tariff barriers to trade; natural advantage is lost resulting in a highly distorted and imperfect situation. Hence, precisely to restore this natural advantage for the facilitation of trade, is required an agency like the WTO.

The WTO's prime objective is to govern trade relations between countries, thus ensuring that trade flows as smoothly, freely, fairly and predictably as possible. It strives to achieve this objective by way of the following mechanisms:

- 1) Administering trade agreements
- 2) Acting as a forum for trade negotiations
- 3) Settling trade disputes
- 4) Reviewing national trade policies of member countries
- 5) Assisting developing countries in trade policy issues, through technical assistance and training programmes
- 6) Co-operating with other international organisations

At present, the WTO has 148 members (including latest additions at Cancun), accounting for around 97% of total world trade. Trade-related decisions are evolved by way of a consensus, with the WTO regime providing for a biennial ministerial meeting for review of past progress and incorporation of new ideas and initiatives.

The WTO operated on a budget of 155 million Swiss francs for the year 2003.

What is all the commotion about?

Given that the WTO strives to work towards the noble mission of trade-led growth for all its member nations, it is ironical to find such a high level of hullabaloo and resistance to the WTO from various quarters. The recent demise of Lee Kyung-hae, the Korean farmer who immolated himself in protest against the WTO on the opening day of the Cancun Ministerial Meet in September 2003, is a classic example of the extreme magnitude of this 'anti-WTO' emotion.

"The sacrifice of Compañero Lee was not in vain, it gave us the energy to derail the WTO talks in Cancun, and his spirit of struggle will live on in our hearts as we keep fighting for that better and more equitable world that is possible." This was the broad message that reverberated from the developed nations' camp, as yet another WTO meet came to an abrupt closure.

The world has witnessed a radical increase in the number of individuals and organisations that are joining this movement against the WTO, both in the developing and the developed world. **These institutions believe that the WTO is an establishment created to support the ultra capitalistic views of the Western nations. The countless number of people who protest each WTO Meet consider it to be a dysfunctional establishment subjected to lobbying by the developed world.** In India, parties such as *Swadeshi Jagaran Manch (SJM)* and numerous NGOs often call for India's immediate dismemberment from the WTO.

Massive protests in streets all over the world, large-scale demonstrations that invariably trigger violence and the severe magnitude of this anti-WTO revolution by an all-powerful lobby—are all indicative of a large-enough fault in the current system; exhibiting well the urgency of the matter.

The prime contention of the developing world is that the developed nations, who image themselves as proponents of free trade, use the WTO as an instrument to exploit the developing world's market while insulating their own markets from third-world producers. The South Block alleges that although the WTO system calls for a multilateral consensus in decision-making, most policies are formed on the basis of muscle power and work only in favour of contemporary developed nations.

The clash of interests between the developing and the developed world has plagued nearly all WTO meets since its inception in 1995. Although set as a regulatory body to restore the natural competitiveness of nations and prevent monopolization of world trade by developed countries, the policies of the WTO always seem to be in favour of the more economically progressive countries. The differences arise out of the vested interests of the North Block nations which are antipodean to the needs of the South.

Hence, the argument is that the WTO succumbs to the pressure tactics of the financially strong North Block, whose *greed* leads to implementation of unjust trade policies that are biased in favour of the North; and go against the principle of *equity*, working to the disadvantage of the South Block.

The main issues of contention between the two sides, which threatens the very existence of the organization are as follows:

1. Continued provision of farm-subsidies in the guise of *indirect Green Box and Blue Box subsidies*

For the promotion of open international trade in the agricultural sector, the WTO Agreement on Agriculture in 1995 stipulated that developed countries would reduce their subsidies by 20% in 6 years, and developing countries by 13% in 10 years.

But as things stand today, developed countries have cleverly circumvented this agreement by providing Green Box and Blue Box subsidies in huge amounts to support their farm sector.

Green Box subsidies include amounts spent on government services such as research, disease control, and infrastructure and food security. They also include payments made directly to farmers that do not stimulate production, such as certain forms of direct income support to help farmers restructure agriculture, and direct payments under environmental and regular assistance programmes. This definition is very wide and includes all types of government subsidies.

Blue Box subsidies include certain direct payments made to farmers, where the farmers are to limit production, and certain government assistance programmes to encourage agriculture and rural development in developing countries.

Rich countries, to varying degrees, pay large subsidies to their domestic food producers. These subsidies—totalling around \$311 billion a year—affect the market prices of agricultural goods, causing direct harm to the competitiveness of poor countries, which would *otherwise* enjoy a natural advantage in farm-sector production.

For example, earlier, farm prices in India were, in general, lower than international prices. However, as a result of the heavy subsidization of agricultural exports by developed countries, the situation took a dramatic turn and Indian farmers have been put to serious disadvantage.

The Human Development Report(1997) reviewing this problem mentioned that the per capita transfer to US farmers from the state amounted to \$29,000 in 1995 while in the main maize-producing areas of Mindanao and Cagayan Valley in Philippines, the average per capita income amounts to less than \$300. Hence, each US farmer receives subsidies roughly 100 times the income of a maize farmer in Philippines!

Moreover, under this agreement, developing countries are not allowed to increase their currently *negligible* level of export subsidies while developed countries are allowed to maintain 64 per cent of their subsidy outlays at the base level. Hence, in effect, countries that have been distorting the market in the past can continue to maintain subsidy regimes, while others are prohibited from initiating such measures in the future.

All such measures undertaken by developed nations spell out adverse consequences for the farm sector in the developing countries, who could have otherwise reaped the benefits of trade-led growth. Since a very large percentage of the total population in such countries is dependent on agriculture, any measure that has an effect on employment in this sector needs to be carefully addressed.

2. Other Protectionist measures adopted by developed countries

Developed countries, in various innovative ways, restrict market access for goods and services produced in developing countries. An analysis of India's external trade reveals that the sixteen countries or territories to which four-fifths of our exports are directed maintain eight major categories of non-tariff barriers restricting our market access. **These include restrictive import policy regimes, standards, testing, labelling and certification measures which are set at unrealistic levels for developing countries or are scientifically unjustified, export subsidies, barriers on movement of services, unfavourable government procurement regimes, barriers to investment and other barriers including anti-dumping measures and countervailing measures.** In the area of standards in particular, developing countries suffer both at the stage of standard setting in international bodies and in actual implementation.

In agriculture, the tariffs of OECD countries are heavily biased against low-priced farm products produced by developing countries. Bangladesh exports about \$2.4 billion to the US each year and pays 14 per cent in tariffs, while France exports \$30 billion and pays 1 per cent in tariffs.

Insofar as Quantitative Restrictions are concerned, quotas on clothing and textiles are to be phased out by 2005. However, even by the year 2002, there has not been much progress on this front by developed countries. This is particularly true for textile and clothing. This lack of progress raises doubts about the seriousness of the OECD countries to meet their 2005 commitments.

3. General Agreement on Trade in Services (GATS)

Capital has become almost fully mobile in the world market. A billion dollars are being daily transferred from one corner of the world to another corner of the world. While there has been great focus on movement of goods and capital, particularly from the North Block to the South, hardly any attention has been paid to market access to professionals from developing countries—engineers, doctors, technicians and others. Full mobility of labour still remains a far off dream. On the contrary, consistent efforts are being made to restrict the labour mobility by the developed countries.

The fear expressed in the developed countries that there will be transfer of job opportunities from the North to the South pays scant regard to the fact that the free inflow of goods and services into developing countries can likewise lead to displacement of industry, unemployment, decline in effective demand, fall in incomes and the deprivation of the globally under-privileged.

Because the WTO has not been successful in achieving the mobility for this equally important factor of production, the labour-intensive developing countries stand at a strong disadvantage.

4. Imbalances in the TRIPs Agreement

The TRIPs agreement is seen as a means of the North "getting even" with the other agreements that help the south. This agreement aims at standardization of the IPR regime all over the world. India has to switch from a "process" based to a "product" based patent system.

Indeed, the issue of development of proprietary patents by enterprises based on the traditional knowledge of indigenous communities, nurtured through generations, without obtaining prior informed consent or without coming to any agreement on benefit sharing, have been viewed as iniquitous practices by countries such as India, which are storehouses of such indigenous knowledge. A situation where indigenous biotechnology, developed over the ages in countries such as India, is being used without any flow back of benefits from patentees to original developers, calls for amendments in the TRIPs Agreement. The imbalances in the TRIPs Agreement and its tilt against the holders of indigenous knowledge, mainly based in developing countries, are a major point of contention for India.

The Way Out for WTO

The multilateral trading system, which the WTO administers, represents a balance of concessions, which if implemented in letter and spirit, could bring about orderliness, transparency and predictability in global trade. More free trade through reduction of tariffs and progressive removal of non-tariff barriers, elimination of trade distorting measures, including subsidies and simplification of border measures are some of the gains of the system. The mission statement of the WTO as per the Uruguay round is:

"...trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment, that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development."

It was agreed that trade must be used as an instrument for development. It was also recognized that all members should assume a 'negotiating' rather than an 'adversarial' posture. WTO is thus a platform for constructive negotiations. **If the developed nations perceive it to be an institution for the exploitation of LDCs and the protection of their resources, then the future for WTO is bleak.** These nations

must recognize the need for equitable development and poverty alleviation in order to achieve peace and stability of the global economy.

Work carried out in the international trade organization WTO has mainly been about reducing barriers to trade without a simultaneous creation of rules to ensure a sustainable international development. WTO suffers from basic democratic weaknesses such as lobbyism and negotiations that are virtually secret. This calls for more unity by the developing world. This will help them bargain for more power in the process of decision-making.

It is quintessential that WTO works towards the following goals:

1. **Market access:** the North has maintained its barriers to trade. It has to live up to its promises and reduce them at the earliest. This means reduction in tariffs, trade-distorting subsidies and other non-tariff barriers.
2. **Improving trade rules and strengthening capacity:** The South is normally quite apprehensive about agreements pertaining to government policies and transparency. They have to do their part in providing an accountable and efficient administration.
3. **Expanding access to medicines:** Developing nations fear that existing intellectual property rules would prevent them from importing inexpensive medicines to tackle severe public health problems. Ministers should endorse the compromise reached recently and remain vigilant in expanding access to medicines.
4. WTO rules should support international environmental agreements and environmentally compatible production, for instance, by allowing labels for organic and environmentally sound production. **The developing countries must be ensured technical and economic assistance with the aim that the labels will give them a possibility for higher export and that it does not lead to Green Protectionism.**
5. WTO should work to create binding **international rules for trade and investments** in order to ensure social and economical development in the poor countries, strengthening protection of workers all over the world.

In parallel, another critical requirement is that countries of the world must co-operate internationally in an obliging manner.

If these goals are met and changes implemented with zest and zeal, then the future for world trade is bright. WTO essentially cannot be “branded” good or bad for the developing world. It has to be effectively utilized by the South to put forward their issues pertaining to trade, sorting them out in a cohesive manner.

The developed world has to realize that no international institution can further be used in an injudicious way and that adhering to the true fundamentals of WTO can make international trade better for both. **In the end, the developing countries have to understand that since their interests are diverse and their advantages varied over different areas, there stems up a lack of consensus and unity. However,**

unity is the requirement of the day and must be evolved. The developed world such as the US and the EU has common goals and expectations and can unite easily. The developing nations have to rise above their vested interests and form a formidable alliance that can put forward their expectations and goals.

The recent WTO meet at Cancun, Mexico, was a turning point in the North-South economic row. The developing nations have united in spite of regional differences in commodities and trade patterns. The South is marred by lack of cohesiveness, which was successfully countered by the G-23 this time. In Cancun, the developed world showed its reluctance to cut farm-subsidies and other such promises made in Doha (2001). The developing nations, which are supposed to reduce their tariffs and open their markets, are increasingly discontent with the opposition of the North to reduce its own barriers. The future of the WTO is in the hands of the developing nations to unite and put their point across to the rest of the world.

Therefore, in conclusion, we can say that the fabric of the WTO has to be tailored by the threads of unity between the requirements of the developed world and the concerns of the developing world, or else it will be ripped apart.

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