

WTO and Developing Countries

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Key Points

- The agenda of the WTO, the implementation of its agreements, and the much-praised dispute settlement system all serve to advance the interests of developed countries, sidelining those of the developing countries.
- The least developed countries (LDCs) are marginalized in the world trade system, and their products continue to face tariff escalations.
- Rules uniformly applied to WTO members have brought about inequalities because each member has different economic circumstances.

The World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT) in 1995. Compared to GATT, the WTO is much more powerful because of its institutional foundation and its dispute settlement system. Countries that do not abide by its trade rules are taken to court and can eventually face retaliation.

The GATT preamble (1947) states that “trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income.” These basic objectives were reinforced in the Marrakesh Agreement, which established the WTO. Historically, GATT enforced phased-in tariff reductions worldwide. Until the Uruguay Round, which ended in 1994, the trade negotiations focused on nonagricultural goods, mainly because the U.S. wanted to protect its farm sector. Over the years, as the corporate interests of the developed countries have expanded, these countries have also lobbied for more issues to be incorporated into the GATT/WTO. Its agenda now includes agriculture, services (financial, telecommunications, information technology, etc.), intellectual property rights, electronic commerce, and, possibly in the next round, investment, government procurement, and competition policy.

Changes in rules come about mainly through multilateral negotiations called “rounds.” Each round offers a package approach to trade negotiations, in which many issues are negotiated together and trade-offs between different issues are made. Between the rounds, negotiations on single issues take place.

Today the WTO has 132 members with another 31 in the process of accession. Of the 132 members, 98 are developing countries, including 27 nations categorized as the least developed countries (LDCs).

One of the commonly used yardsticks to measure the success of the WTO is the volume of world trade. The results seem excellent in this respect, with world trade up 25% in the last four years. But the benefits of increased trade are not widely shared. For

example, the LDCs represent 20% of the world's population, but they generate a mere 0.03% of the trade flows.

Although purportedly a democratic institution, the WTO is dominated by the leading industrialized countries and by the corporations of these countries. The logic of commercial trade pervades the WTO. The development goals articulated when GATT was first formed have been put aside – or are wrongly assumed to be the natural consequence of increased trade. Developing countries have little power within the WTO framework for the following reasons:

- Although developing countries make up three-fourths of WTO membership and by their vote can in theory influence the agenda and outcome of trade negotiations, they have never used this to their advantage. Most developing country economies are in one way or another dependent on the U.S., the EU, or Japan in terms of imports, exports, aid, security, etc. Any obstruction of a consensus at the WTO might threaten the overall well-being and security of dissenting developing nations.
- Trade negotiations are based on the principle of reciprocity or “trade-offs.” That is, one country gives a concession in an area, such as the lowering of tariffs for a certain product, in return for another country acceding to a certain agreement. This type of bartering benefits the large and diversified economies, because they can get more by giving more. For the most part, negotiations and trade-offs take place among the developed countries and some of the richer or larger developing countries.
- Developing countries have fewer human and technical resources. Many cannot cope with the 40-50 meetings held in Geneva each week. Hence they often enter negotiations less prepared than their developed country counterparts.
- Developing countries have discovered that seeking recourse in the dispute settlement system is costly and requires a level of legal expertise that they may not have. Furthermore, the basis on which the system is run – whether a country is violating free trade rules – is not the most appropriate for their development needs.

Nelson Mandela, commenting on the Uruguay Round, said: “The developing countries were not able to ensure that the rules accommodated their realities... it was mainly the preoccupations and problems of the advanced industrial economies that shaped the agreement.” He added that rules applied uniformly are not necessarily fair because of the different circumstances of members.

Problems with Current U.S. Policy

Key Problems

- Washington has promoted free trade principles only in sectors that benefit the U.S. economy; in other sectors, like textiles, protectionism reigns.
- U.S. agricultural and patenting policies will not meet the food needs of a growing world population.
- Further liberalization in selected issues, old and new, will give Northern corporations more access to the resources of the South, thereby further debilitating the domestic economies of developing countries.

U.S. influence in the WTO has more often meant U.S. domination than responsible leadership. Instead of promoting beneficial goals for all, the U.S. is too often concerned with aggressively expanding its own markets. As much as domestic politics permit, it pursues a corporate-driven menu of liberalization that marginalizes the development needs of the poor. As Martin Khor of the Third World Network puts it, the U.S. agenda is “liberalization if it benefits me, protectionism if it benefits me, what counts is my commercial interest.”

The inequities within the WTO are stark. Exports from developing countries continue to face significant market access impediments. Recent UN studies confirm that tariff peaks and tariff escalation still hamper developing country exports and their attempts to export new products such as beef, cigarettes, clothing, footwear, and wood articles.

To gain new market access in developing countries, the developed countries--acting in the interests of transnational corporations (TNCs)--have rapidly imposed new agreements in telecommunications, information technology, and financial services. The Millennium Round talks (scheduled to commence in late 1999) will advance economic liberalization in both traditional and new sectors even further, contrary to the interests of developing countries.

Washington has creatively interpreted WTO agreements to protect key industries. In textiles and clothing, the U.S. has selectively opened its markets, but this liberalization has proved of little benefit to developing nations. Similarly, the U.S. has misused the transitional safeguard measures designed to protect domestic industries from sudden increases in imports. It has also introduced its own Rules of Origin (rules used to identify where a textile or clothing product comes from), changing the conditions of competition and adding to the restrictions against the low-cost textile exports of other countries.

Using creative calculations and interpretations of the Agreement on Agriculture (intended to reduce domestic support and open up markets), the U.S. made a few relatively insignificant changes in its policies to comply with its commitments under the

agreement. Thus the agreement institutionalizes subsidies to U.S. agroexporters while prohibiting developing country governments from introducing new forms of support for their own disadvantaged farmers. Under the WTO's "Green Box" policies, direct income subsidies to U.S. agroexporters are exempted from reductions on the specious grounds that they are "decoupled" from production or are somehow "non-trade distorting." The 1996 Farm Bill reduced direct payments to U.S. farmers, but it increased expenditure for export subsidies, thereby providing a net benefit to U.S. agroexporters.

U.S.-led WTO agricultural policies will not meet the food needs of a growing world population. These policies promote food availability through trade and discourage countries from developing food self-sufficiency. Most developing countries are short of foreign exchange and cannot afford to buy food from the world market, despite low pricing and availability.

New rules regarding plant information will have both agricultural and medical implications. The Trade Related Intellectual Property Rights Agreement (TRIPS) fiercely protects the rights of corporations but easily allows the shared knowledge of indigenous communities to be patented by others. When fully implemented, developing countries will lose billions in rent transfers to rich countries, as TNCs will continue to control virtually all the patents of developing countries.

TRIPS, which was strongly supported by the Clinton administration, provides the U.S. biotechnology industry with a very favorable legal environment. But biotechnology is not the answer to food shortages. Genetically modified seeds and plants (GMOs) raise costs for farmers and promote monocropping, which increases the incidence of diseases and pests, encourages the use of chemicals, and threatens the biodiversity and genetic purity of plant species. Furthermore, although the U.S. has not done long-term research on the health impact of GMOs, other countries are unable to halt their imports unless those countries can present scientific proof of harmful effects. In sum, TRIPS will be catastrophic for both health and sustainable agricultural systems in developing countries.

Washington intends to introduce a broad spectrum of issues at the Millennium Round talks with the aim of enlarging the market for U.S. goods, services, and investments. High on the agenda will be the controversial Multilateral Agreement on Investment, which seeks to gain national treatment and rights for corporations operating in all countries. Small- and medium-sized enterprises in developing countries are unlikely to be able to withstand such competition, leading to the destruction of domestic economies in the LDCs.

Washington also intends to conclude an initial agreement on transparency in government procurement by the Third Ministerial Conference. Such an agreement will eventually bring about the full-scale opening of government procurement--a trillion dollar business--to foreign companies. Like the investment agreement, this will be detrimental

for developing countries, whose enterprises will not be ready for such intense competition.

It is precisely because the WTO is a multilateral avenue with an effective enforcement capability that the U.S. is putting an increasing number of issues under its auspices. But Washington fails to recognize that such liberalization policies often fail to promote the kind of sustainable international development that it purports to support.

Toward a New Foreign Policy

Key Recommendations

- The WTO should consider its top priority to be the development needs of its members.
- Sections of agreements that work to the disadvantage of developing countries must be changed, including agriculture, TRIPS, textiles, and the dispute settlement system.
- U.S. domination should end, decisionmaking should be democratic, and each government should consult regularly with its broader society on trade deliberations.

A change from a “trade creates wealth” perspective to one that stresses broad-based development is necessary if trade is to improve the living standards of the world’s poor and ensure the long-term sustainability of resources. The WTO should emphasize greater self-sufficiency of economies nationally and regionally.

Domestic markets, rather than foreign markets, should be the main stimulus of growth. Resources should be used sustainably to support local and national communities. People and the preservation of the environment, rather than capital, should be the primary objectives of any expansion of global trade. Countries must be free to choose if they want overseas investments and, if so, what kind of investments. They must also be able to decide on their tariff rates and other trade barriers in order to protect their industries, as the developed countries have been doing.

The U.S. should use its influence to encourage the WTO to become a democratic institution that provides space for a diversity of economic interests. Governments should hold regular consultations with their citizens and legislatures, especially when negotiations are in process. U.S. officials should insist that the working documents and minutes of WTO meetings be readily available to the public. Mechanisms must be developed that allow representatives of organized civil society sectors to participate in WTO rule-making processes, including intervening in the dispute settlement system.

Certain practices and rules in the WTO must be changed to incorporate the realities and broader development agenda of the Southern members, including the following:

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- All members should be equipped with the technical expertise and human resources to participate fully in the multilateral negotiations. Liberalization on the “fast track” must be stopped. Instead changes should be made to rules that effectively disadvantage the economies of developing countries.
- Decisionmaking in the WTO must involve all members. This has not been the case to date; instead the “quad” (U.S., EU, Japan, and Canada) has made many decisions on behalf of all.
- The dispute settlement system must consider the development needs of countries (especially the most vulnerable), not just whether free trade rules have been violated. For instance, in the recent dispute over the banana trade, the WTO ruled in favor of the U.S. over the EU’s traditional arrangement of preferential access for Caribbean banana exporting countries--a ruling that may have devastating economic consequences for Caribbean economies that depend solely on banana exports.
- If developed and developing country farmers are to compete in the same markets, then the \$280 billion in annual subsidies that developed countries provide to their farmers should be reduced to the negligible amounts developing countries provide. Otherwise, developing countries should be allowed to increase both their subsidies and their tariffs to protect their markets from the highly subsidized exports of the developed countries. Small farms in both developed and developing countries should be encouraged, not squeezed out--especially in developing countries, where farming is the source of livelihood for millions.
- TRIPS should be abolished and the control of intellectual property should be returned to the pre-Uruguay institutions such as the World Intellectual Property Organization. At minimum, seeds, plants, and drugs should be exempt from TRIPS in order to preserve basic health care and agricultural systems in developing countries. Currently, TRIPS even contradicts the principles of the Convention on Biodiversity.
- Developed countries should eliminate the tariff escalation on product chains of interest to developing countries. And if the WTO continues to force all countries down the liberalization path, the protected sectors in the U.S. must also be liberalized to open up new export markets for developing nations.
- The WTO should caucus with relevant UN agencies and use the international standards established in UN conventions to ensure that development goals are in concert with its trade agenda. The final test of the WTO’s success is not the volume of world trade or the extent to which trade barriers have been lowered, but whether and to what extent living conditions in all nations--particularly the developing countries, which constitute three-fourths of its members--are improving.

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