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## REBALANCING THE RULES OF THE MULTILATERAL TRADING SYSTEM IN FAVOUR OF THE POOR

*Discussion paper presented by Mr. H. Scholz (European Parliament)*

### 1. Reinforcing the WTO system

When establishing the World Trade Organisation, the founding parties were "*Recognizing that their relations in the field of 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 and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.*"

One might recall that back in 1994 there was considerable doubt on whether the WTO would be the right instrument to reduce poverty in the world, in particular among governments of developing countries and among civil society organisations. Negotiations in the Uruguay Round had dragged on for a long time and it wasn't until the collapse of the bipolar system and the subsequent reshuffle of the world economic order, that developing countries were willing to trust the promises that creating the WTO would tremendously increase their share in world trade and contribute to the well-being of their populations.

In the year 2011, with new hopes emerging that the tortuous negotiations in the framework of the Doha Development Agenda could come to a conclusion and almost 20 years after the Marrakesh Agreement it is more than just to evaluate whether the WTO has delivered on those promises, and to what extent its very architecture might have to be improved in order to do so more effectively.

According to various opinions in civil society and by international NGO's working on challenges to reduce poverty and underdevelopment, the membership to the WTO did not help the vast majority of developing countries to increase their market access and exports to the extent proposed at the beginning, nor to maximise the benefit of their comparative advantage for their own development. According to the World Bank, Africa's share in world exports fell from 4.5 % in 1980 to 2.6 % in 2007. If we leave out oil exports, it is even worse.

Looking at the recent development in the Southern Mediterranean it should become more obvious that the complexities of international economic relationships, including the rules and principles of World Trade, are subject to permanent public scrutiny by citizens – as their ability to use the results of economic exchange is simply the final judgement on efficiency and fairness of structures of international trade policies. Therefore it seems to me important that our parliamentary participation in the forthcoming decisive phase for a possible successful conclusion of the Doha-round and the future attractiveness of the WTO, has to draw attention to a certain increasing perception in parts of the societies, that a lot of what was achieved in improved market access thus far through tariff reduction, has been offset by increases in non-tariff barriers and abuse of anti-dumping rules mainly against products from developing countries, such as textiles, may it be even an expression of the political and social conflicts within the countries having opened to the challenges and realities of a globalized economy. In addition, legitimate growing demands of consumers in growing markets with import potential have not been balanced by measures helping producers in developing countries to adequately meet these demands.

During the two last decades, the policy of the World Bank and the IMF was to encourage developing countries to open up their economies rapidly and to reduce drastically state spending and involvement. This went hand in hand with WTO measures and some argue that it could have weakened considerably the production capacity of most developing countries as well as the national and regional markets. Without sufficient "aid for trade" schemes, most developing countries were not able to build up, maintain or rebuild either the required infrastructure such as ports, railways or roads, nor to develop the necessary skilled labour, academic and other professionals necessary to benefit from a so-called globalized world economy. Lessons learned from the ongoing crisis must include that economies are much more complex and much more interlinked with development needs of societies than was previously understood. We now need a new understanding (what we could call) a post-Washington-Consensus – as has been recently discussed in different ways at the Davos WEF and by parliamentarians from Latin America, Africa and Europe at a World Parliamentary Conference on the eve of the WSF in Dakar.

To state it quite early, we have to give the WTO the tasks and capacities to increase the trade potential of the majority of its member states. That must include measures of linking the WTO closer to the Bretton woods institutions, and the 16 UN institutions already active in the development field, in particular the UNDP, UNCTAD and FAO. This requires a lot more coherence in the policies pursued by the world's leading economic actors. We should not be too distracted by first signs of a recovering international economy: in spite of certain G8 and G20 decisions, mass poverty remains a characteristic feature of the world population and that fact is shameful.

## **2. Special and differential treatment of developing countries**

Developing countries have signed up to WTO membership under the assumption that a rules based world trade system would be of benefit for them. It is in their interest to make sure that the rules they agreed to are indeed applied and implemented. And this before endeavouring to take on additional issues on the WTO agenda, such as the so-called "Singapore issues".

In my view, the focus on the sectoral negotiations and expansion of the WTO-agenda has left the WTO less able to respond to issues related to the implementation and operationalisation of the existing agreements and principles under WTO law, especially those related to developing and least developing countries' rights.

Developing countries need to benefit from special and differential treatment (SDT) flexibilities across the board. This includes allowing them to refuse to open their market in reciprocity with the developed ones and granting full duty-free and quota-free market access, for all LDC exports - and not only for 97% of them - as has been proposed so far, to all OECD countries and a set of major emerging economies. Further proposals are also needed to address preference erosion concerns.

SDT is not a demand for the future. It is one of the founding principles of the WTO. It is integrated in the WTO law through Chapter IV on trade and development and through various articles such as Article XVIII on balance of payment matter and other provisions that stipulate for longer transition periods or less obligations on behalf of developing countries. Representatives from the Middle East based Arab NGO Network for Development stressed in this context that at the centre of SDT is the principle of non-reciprocity, which in practice is being reversed. For example they analysed that the negotiations regarding NAMA show that if the Doha round will be terminated based on the current proposals at the table, then developing countries will be undertaking much higher tariff cuts than developed countries. Therefore, I would state that we really face a need to review SDT in order to develop an action-oriented strategy for the WTO, and thus operationalise the respective rights of developing and least developed countries. Let me recall that some new Members for good reason have formed a group in the WTO called the Recently Acceding Members Group (RAMs). This group asks for special conditions of these countries to be taken into consideration in the ongoing negotiations, especially the fact that they already have given a lot of concessions under their accession package.

The moment of accession and the related negotiations have indeed led to a loss of several of special and differential treatment rights that they have under the WTO law. These are reflected in WTO-plus and WTO-minus measures, whereby these countries may be obliged to give up their rights to fewer concessions in specific sectors, give up transition periods, or be obliged to accede to agreements they are not obliged to be part of, such as the plurilateral agreement on government procurement under the WTO. These have significant developmental implications on national economies and policymaking. Concessions made by previous Members have led to a downward oriented spiral that has become most problematic for the 30 developing and least developing countries currently negotiating accession to the WTO. This issue is of high concern and necessitates looking into reforming the accession process and the ability to secure the rights stipulated under WTO law.

Developing countries also face significant challenges with regard to the implementation of commitments, after the end of transition periods under negotiated agreements. They have presented several proposals addressing this aspect, which have not been adequately taken into consideration so far. Among developing countries there is a growing perception that instruments such as the anti-dumping agreement are being over-exploited by developed country stakeholders to block imports from developing countries. Proposals put forward by developing countries include linking the review of implementation issues to two measures to be undertaken: (1) to give extension period for the transition time in areas where implementation problems have arisen and (2) to put a moratorium on dispute cases in areas where implementation problematic have arisen, until the needed review of implementation issues have been undertaken.

Decision making should be made more inclusive and transparent, keeping the rule of consensus, clarifying the role of chair of committees by proposing a code of conduct for them, and making sure that negotiations among groups of countries observe the principle of due representation.

The dispute settlement body should be reinforced, in order to turn it into a real judicial body, with the usual rules of such a body regarding transparency and balancing of core values and interests, taking into account the rules of other UN bodies related to the case when making the decisions.

### **3. Reform of the agriculture sector**

Given the importance of the agricultural sector in the economies of the LDCs, particularly its role in human development, food security and rural development, reform of farm trade is needed. There are already proposals in the right direction, even if more can be done.

If Doha is closed successfully, taking into account decisions reached so far, developing countries will gain from more level playing field in agriculture. Maybe most importantly, trade distorting measures such as subsidies will be cut (80% for the EU and 70% for the US), and all export subsidies will be eliminated. Developed countries' farm tariffs will be reduced by at least 54%.

But the WTO should not focus only on market access. It should also take initiatives in order to stabilize the market of some products key for the development of poor regions in coordination of the FAO, UNDP and UNCTAD. Let us not forget that the global recession came on top of the recent experience of high food and fuel prices. In 2009 here in Geneva, during the global aid for trade review conference, Mr. Donald Kaberuka, President of the African Development Bank (AfDB), began his intervention by noting that at the start of the current economic crisis there was an optimistic, perhaps naïve view, that Africa would not be affected. The reality was and is that the crisis had come sooner, was deeper and could last longer in Africa than anyone had expected. He stated then that the crisis had been transmitted to African economies through trade, or more specifically, the commodities channel. Those economies most dependent on commodities had suffered the most.

And it was stated recently – beyond others - by the Economic Community of West African States (ECOWAS) that a new proposal of regulation to control the monopolies of retail chains should mostly become a new task of the WTO.

However, improving market access is vital to create development opportunities to LDC's economies, especially for basic sectors such as cotton, peanuts and sugar. If the DDA is to live up to its name, the issue of cotton needs an early solution, with deeper cuts, and more rapid implementation, in subsidies to the cotton sector than agricultural products in general. It is a question of credibility.

Doha could also have an impact on fisheries subsidies, of which currently a large part go to increased expansion of production, fuel subsidies, and vessel construction for catches of already overexploited and significantly depleted stocks. Many small islands and poor coastal regions depend on fisheries for livelihood and food security. It is therefore important to reform subsidies and readdress efforts to improve sustainable fisheries management practices and safeguard the future of global fish stocks.

#### 4. "Aid for Trade" and trade facilitation

Enhanced market access is not enough for many of the poorer countries, as many of them simply do not have the capacity to take advantage of these opportunities, mainly because of the lack of production. If developing countries are to reap the benefit of integration into the world economy, they need help in building their trade-related capacity, production and infrastructure, in order to be able to implement and benefit from WTO agreements and take advantage of new and existing trade opportunities and adapt to a changing external trading environment.

Aid for Trade is necessary to address developing countries' supply-side constraints and trade-related bottlenecks. It is critical that the level of Aid for Trade flows is increased in the future, but we also need to learn more about what does and what does not work, and why, and to ensure it is not used to "buy off" poorer developing countries to support unfair and imbalanced deals. Mutual accountability ownership and transparency are needed. We need indicators to track the implementation and impact of aid for trade, and performance information should be an integral part of managing these activities. The Aid for Trade Third Global Review here in Geneva in July 2011 will be very important in this respect.

The projections for increased trade due to the proposed improvements in trade facilitation are substantial and some even suggest that the benefits for developing countries could by far exceed the gains in other areas for negotiation. For instance, it is estimated that for Sub-Saharan Africa it could be worth €10bn in additional economic activity each year (+2%), half the annual inflows of Official Development Assistance (ODA)<sup>1</sup>. If it is possible to achieve this, will however much depend on governments' own commitment to reform domestic policies and infrastructure to ease border-crossing for goods and services, and the development aid that will be provided by developed countries to implement these reforms.

The goal of these reforms must be to increase the volume of intra-regional trade. Today, many developing countries still suffer from mono-directional export routes inherited from a colonial past. The result is a constant net flow of resources and in fact also of money from the South to the North. Increased intra-regional trade flows would help to reduce the South-North trade deficit. While more than 60 percent of Europe's trade takes place within the region, for the African continent this figure reaches only an estimated 10 to 12 percent, or merely 3 percent within the North African region. The World Trade Organisation needs to develop its awareness of the importance of functioning and sustainable trade flows within the world's regions.

Given today's level of interconnectedness in global markets and between markets of developing and developed countries, I conclude that it is legitimate to state that developed economies need growing developing markets in order to sustain their own growth. The more effective role the WTO plays in helping developing countries benefit from international trade and grow, the higher ability there is for developed countries in benefiting from this growth. Intra-regional trade growth is the fast track to achieve world market relevance for developing countries.

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<sup>1</sup> Hoekman, Martin and Mattoo (2010), "Conclude Doha - It matters!", World Trade Review, IX 03, 505-530

The reform policies also include the need to create sound economic, social and environmental frameworks, strategies for enhancing human capacities and good governance, and ensuring that the vulnerable are protected. The latter is in fact often overlooked. If not put in the right framework, trade opportunities might not benefit the whole population equally. "In favour of the poor" should therefore not only be understood as "poor countries", even if it is where a majority of poor people live, but as all those who live in poverty, be it in the developing or developed countries.

## **5. Accompanying policies of world trade**

Trade does not happen in a vacuum context. The European Parliament has already on many occasions stressed the need for new links to be forged between multilateral organisations so as to ensure consistency and coordination in their actions, in the interest of sustainable development and poverty eradication.

I personally want to underline – in the current context of debates about the stage of play of international organizations that WTO actions should be supportive and consistent with the action being taken by other international organisations such as the International Labour Organisation (ILO), the United Nations Food and Agriculture Organisation (FAO), the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the World Health Organisation (WHO), the United Nations Conference on Trade and Development (UNCTAD) and the Kyoto programme on renewable energy. In order to find new tools and a mechanism within the WTO structures which ensure that the implementation of policies of international economic organizations, in particular the IMF and the World Bank, will not undermine the production capacities of developing countries, impeding them to use the new export possibilities, I propose to start a more jointly initiated discussion process with representatives from all regions addressing these challenges. Measures to be discussed and elaborated could include for example the idea to create a fair and democratic global currency system, since excessive exchange rate fluctuations have a deep impact on prices for commodities and goods.

Economic growth taking place without respect for human rights can actually be at the detriment of the poor, who are often neglected and have difficulties in defending their rights when big economical interests are at stake. Many poor people have been evicted from their lands, for example in Cambodia, as multinational companies have achieved large land concessions for their activities. Extracting industries who do not respect environmental standards destroy the livelihoods crucial for the survival of poor people in Latin America - just to give a few examples. Poor people might have even more to gain from the proper implementation of the *Decent Work Agenda*, as they are often more exposed to hazardous working conditions and exploitation. Business models that are based on trading what exploited people have produced cannot be sustained.

If we really want to rebalance the rules of the multilateral trading system in favour of the poor, this larger picture also needs to be taken into account. We need to deliver on all the Millennium Development Goals, and the conclusion of the Doha Round would contribute to this, and to MDG 8 in particular, through special treatment of developing countries and not the least of LDCs. Developing countries need to reform their own policies, with sustained efforts through the Aid for Trade, but we also need a trading system which respects human rights, social and environmental standards.

Let me conclude by quoting Helen Clark: "*We need a global trade deal which works for poor people and poor countries.*"