Why frustration is rising over Hong Kong meeting as hopes fade for WTO's "development agenda"

By Martin Khor

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When the WTO's Sixth Ministerial conference takes place in Hong Kong later this month, it should not come as a surprise that representatives of both the developing countries and the non-governmental organisations will express their disappointment and frustration that the Doha round of negotiations has not lived up to its "development" name and promise.

This widespread feeling can be expected to be the reason for protests in the streets by citizen groups, as well as expressions of dissatisfaction in the halls of the official conference by Ministers and officials of many developing countries.

Not only is there a disappointment that the promised benefits of the Doha negotiations have not emerged. There is a deep-seated fear that the Round is no longer about development but about opening up the markets of the developing world, to their detriment. The fear is that if negotiations proceed the way the developed countries are strongly advocating, the outcome will be counter to development goals, with millions of small farmers dislocated and local industries losing their business or disappearing.

When the Doha talks were launched in 2001, the Trade Ministers in their Declaration proclaimed that the needs and interests of developing countries would be at the centre of the work programme.

At the top of the agenda were two items directly involving development concerns – strengthening special and differential treatment for developing countries, and resolving the problems from implementing the WTO agreements.

The proposals covered a wide range of issues relating to all the major WTO treaties. They were meant to begin the process of re-balancing the unbalanced rules arising from the Uruguay Round. Among the rules perceived to be unfair were those in agriculture, which allowed developed countries to maintain or increase their huge subsidies, whilst developing countries were obliged to reduce their tariffs, thus subjecting their farmers to unfair competition from artificially cheapened subsidised imports.

There were more than a hundred proposals for each item, and the deadline for dealing with them was to precede the deadline for achieving negotiating modalities for liberalising agriculture and non-agricultural market access (NAMA) or industrial tariffs.

Four years later, hardly any development-related proposal of significance from these two items have been resolved. Several deadlines have passed without success, and Hong Kong is expected to set yet another deadline.

Then there was supposed to be a strong development dimension in the market access areas of agriculture, NAMA and services. Respect for this dimension would cover two things: increasing export opportunities for developing countries in markets of developed countries; and enabling developing countries to maintain policy space (through special and differential treatment) so that their firms and farms do not come under undue pressure to compete with cheaper imports and large foreign firms, when they are not yet ready to do so.

Unfortunately, as one Asian Minister, Kamal Nath of India, has put it, the WTO negotiations are in danger of becoming not a Development Round but a Market Access Round. Developing countries are being pressed to open up all sectors of their economy.

And at the same time, the rich economies are still very reluctant to liberalise in the areas that the developing countries are able to benefit from, especially agriculture and the movement of labour (Mode 4 of the services agreement, in WTO jargon).

This then is the tension at the heart of the deadlock in the talks that will be taken over to Hong Kong. The developing countries want the rich countries to give up their subsidies and open up in agriculture, as they promised to do in the last Round, but in practice did not. But the developed countries, caught on the defensive, are instead aggressively pushing the developing countries to drastically open up their agriculture, industrial products and services.

Due to the impasse, expectations that the Hong Kong Ministerial will produce full "modalities" (the formulae and numbers for reduction of subsidies and tariffs) have been lowered. But the NGOs – and quite a few governments – are worried that in the pressure cooker atmosphere of WTO Ministerials, the developed countries will try to extract commitments from developing countries while giving very little away themselves.

Agriculture should be at the centre of this Round, for it remains the sector containing most trade distortions, and the Uruguay Round's promise of Northern liberalisation has yet to be fulfilled. The proposals by the US, EU and other developed countries have so far been inadequate. Independent experts in NGOs and many developing countries have found that there would be little if any real cuts in domestic support and little gain in market access, unless these offers are much improved.

At the same time, most of the proposals would oblige the developing countries to cut their own agricultural tariffs at higher rates than during the last Round, especially since the tariff-reduction formula is likely to apply to all products, instead of the more flexible Uruguay Round approach of cutting by an overall average rate (so that there can be different reduction rates for different products).

The NGOs and farmers' organisations are furious that instead of being eliminated, the existing injustices of the WTO agriculture regime would actually worsen under this Round, since the rich countries can continue to "dump" their products below cost in developing countries, which are even less able to defend themselves from the artificially cheapened farm imports because they have to cut their tariffs even more sharply.

The European Union, picked on by most for not doing enough in agriculture, has led the charge of developed countries to have the developing countries open their markets also to industrial goods and services.

The "Swiss formula" is to apply on industrial tariffs. It works in a way that cuts tariffs more deeply the higher they are, which suits the developed countries since their industrial tariffs are generally low. But developing countries, which have relatively high bound tariffs to protect their emerging industries, will be caught.

There is a coefficient in this formula, which determines how steep the tariff cuts will be. The lower the coefficient, the larger the cuts. The EU has proposed a coefficient of 10 to apply to all countries. The implications are very dramatic. All tariffs will go below 10 per cent. For example, an existing 50% tariff on a product will drop to 8.3% and an existing 20% tariff will fall to 6.7%.

Even if a coefficient of 30 is selected (and this is rejected by the developed countries), the cuts will still be severe. An existing 50% tariff would have to be cut by 63% to 19%.

In previous Rounds, neither developed nor developing countries were subjected to such a formula cut. The flexibility for developing countries to choose at which rates to liberalise their imports of industrial goods will be lost in this Round. Many trade unions and NGOs are very concerned that should the proposals go through, industrial development will be foreclosed in most developing countries, with the loss of local firms and industrial jobs.

In services, there are already modalities for the negotiations, agreed to in 2001, known as the services guidelines and procedures. These preserve and extend the flexibilities in the WTO's services agreement that allow developing countries to commit to liberalise in only the sectors they choose, and to the extent they consider appropriate.

Though other members may make requests to a country to open up, it is up to the country whether to make an offer to open up in the requested sectors, or not, or to what extent. The negotiations take place under the bilateral offer-request system.

In the past few months, several developed countries, led by the EU, have proposed to introduce many new negotiating methods that would undermine and potentially displace the bilateral system, the services guidelines and the structure and flexibilities in the services agreement itself.

The proposal is that a multilateral system of "benchmarking" be introduced, in which developing countries would have to commit to liberalise in a certain number of sectors (in the EU proposal, it is 57% of the services sub-sectors).

Another proposal is that countries that are requested by others compulsorily take part in plurilateral and sectoral negotiations. For example, a group of countries that want others to open up their financial services can request countries whose markets they are targeting to join in negotiations for a plurilateral deal, and these requested countries have to participate.

These new methods are designed to make it easier to pry open the services markets of developing countries, by removing their present freedom to decide for themselves what commitments to make at the WTO.

The trade unions and NGOs are very concerned that if these proposals go through, the developing countries will lose control of their services sectors, which include finance, distribution, telecommunications, energy, business and professional services, as well as social services.

Several developing countries have been fighting against the proposals which they see as an encroachment of their rights in the present WTO services regime, and a threat to their domestic services firms. But the developed countries are adamant to see their demands are met. So a big battle looms on this front at the Hong Kong meeting.

To sum up, many civil society organisations are frustrated that the WTO rules have perpetuated an unfair system which tilts the trading system in favour of the rich countries and their corporations, while laying developing countries open to ever more pressures to liberalise when their farmers and firms are not in a position to compete in the global economy, whether because the rules are unfair (thus allowing the rich to have high subsidies), or whether because the firms are too weak to face the onslaught of giant foreign firms.

The results of the unfair trading system include the loss of livelihoods and incomes of small farmers, loss of jobs due to de-industrialisation in many countries, continued obstacles to access to markets in rich countries and continuous decline in commodity prices and the poverty that is linked to that.

The Hong Kong Ministerial meeting, coming at a strategically important moment in the Doha negotiations, had the potential to correct some of the imbalances and turn the corner towards development. But it looks as if the potential for doing something really positive has faded. Instead, the Ministerial is in danger of becoming an exercise in limiting the damage of unfulfilled expectations, putting a positive spin on a few not too significant items (such as financial aid for poor countries to adjust to the new hostile environment), and postponing some hard decisions to another day.

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