WHY DEVELOPING COUNTRIES CANNOT AFFORD NEW ISSUES IN THE WTO SEATTLE CONFERENCE

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We meet in the shadow of the global financial crisis as well as the shadow of the forthcoming Seattle WTO Conference. It is thus urgent and timely to examine and reexamine what is the the right approach developing countries should take towards integration in the world economy, and to liberalisation of trade, finance and investment.

On financial liberalisation, there are new lessons to learn from the recent events. It is now clear that financial liberalisation, especially when done inappropriately, was the main cause of the East Asian economic crisis. Many of the affected countries, which had been in the forefront among countries of the South in global economic integration, are now cautious and reviewing their approach to financial openness.

In Malaysia for example a fixed exchange rate system was established (to prevent fluctuations and enable flexibility of options for monetary and fiscal policies). Also, selective exchange controls were introduced to protect the financial system from currency and financial speculatiion and from the negative effects of short-term "hot" capital flows. Even the original critics admit these moves have helped stabilise the economy. There are good lessons to learn both from the financial crisis and the Malaysian experiment.

A Rethink on Trade Liberalisation and its Effects

On trade liberalisation, the issue is even more complex. There is a strong paradox or contradiction in the manner developing countries in general and many scholars take towards this issue. On one hand it is almost invariably repeated that "we are committed to trade liberalisation which is positive for and essential to growth and development." On the other hand, many developing countries also notice and are now actively complaining that trade liberalisation has net negative results for their economies, or has marginalised them.

A clear explanation of why trade liberalisation often leads to negative results is found in the UNCTAD's Trade and Development Report 1999. It focuses on the behaviour and balance between imports and exports, and finds that rapid trade liberalisation has contributed to the widening of the trade deficit in developing countries in general. The report finds that rapid trade liberalisation led to a sharp increase in imports but that exports failed to keep pace. For developing countries (excluding China) the average trade deficit in the 1990s is higher than in the 1970s by 3 percentage points of GDP while the average growth rate is lower by 2 percentage points.

This latest important UNCTAD finding corresponds with several new studies that show there is no automatic correlation between trade liberalisation and growth. Countries that rapidly liberalised their imports did not necessarily grow faster than those that liberalised more gradually.

The problem in trade liberalisation is that a country can control how fast to liberalise its imports (and thus increase the inflow of products) but cannot determine by itself how fast its exports grow. Export growth partly depends on the prices of the existing exported products (and developing countries have suffered from serious declines in their terms of trade) and also on having or developing the infrastructure, human and enterprise capacity for new exports (which is a longterm process and not easily achieved).

It also depends on whether there is market access especially in developed countries. Herein lies a major problem beyond the control of the South, for as is well known there are many tariff and non-tariff barriers in the North to the potential exports of developing countries. Unless these barriers are removed, the South's export potential will not be realised.

Thus, trade liberalisation can (and often) causes imports to surge without a corresponding surge in exports. This can cause the widening of trade deficits, deterioration in the balance of payments and the continuation or worsening of external debt, all of which constrain growth prospects and often result in persistent stagnation or recession.

This should lead us to conclude that trade liberalisation should not be pursued automatically or rapidly and in a "big bang" manner. Rather, what is important is the quality, timing, sequencing and scope of liberalisation (especially import liberalisation), and how the process is accompanied by (or preceded by) other factors such as the strengthening of local enterprises and farms, human resource and technological development, as well as the build up of export capacity and markets.

Developing countries must have the ability, freedom and flexibility to make strategic choices in finance, trade and investment policies, where they can decide on the rate and scope of liberalisation and combine this appropriately with the defence of local firms and farms.

The Need To Review and Amend the WTO Agreements

This conclusion has profound implications for the WTO negotiations. As has been discussed at this Ministerial Meeting, the Uruguay Round has caused serious problems for developing countries. The next stage of negotiations must address these problems which arise from shortcomings and deficiencies as well as imbalances in agreements that curtail the ability of developing countries to make necessary and strategic economic choices.

As the Chairman of the G77 has said, the next stage of the WTO negotiations should be about the three Rs, to review, repair and reform the WTO agreements and system. This is necessary now in order to avoid further damage to developing countries.

Firstly, the developed countries must implement their commitments in areas which they made to the developing countries, and which up to now they have not implemented satifactorily, thus giving rise to the justified charge that developing countries have been shortchanged and have not benefitted from the Uruguay Round. This is in areas such as phasing out of the multi-fibre arrangement, reducing their agriculture export subsidies and high tariffs, restraining from the abuse of anti-dumping measures, and implementation of the provisions on special and differential treatment for developing countries.

Secondly and perhaps even more importantly, developing countries should be allowed to lead the WTO to carry out a comprehensive review of the various agreements to offset the imbalances in them and the negative effects they have on development. For example:

** There should be a review of the agriculture agreement from the viewpoint of food security and rural livelihoods in developing countries, as most of these countries depend on small scale agriculture for employing a large sector of their population and to contribute to food self-sufficiency. As part of S and D treatment, in developing countries, food produced for domestic consumption and the products of small farmers should be exempted from the disciplines of import liberalisation and domestic support.

** In the TRIPS agreement, in order to retain the integrity of the patent system that prohibits the grant of patents for discovery, and to prevent the increasing and unjustifiable practice of biopiracy (in which biological materials from the South and the traditional knowledge of their use is being appropriated through patenting), Article 27.3b should be reviewed and amended so that all life forms are prohibited from being patented. Also, in conformity with the Biodiversity Convention, it should be clarified that the sui generis system for the protection of plant varieties (in the same Article) can include national laws that protect the traditional knowledge of local communities.

** In the TRIMS agreement, the review should enable developing countries to be exempted from the prohibition of local content requirement as well as the foreign-exchange balancing requirement (ie whereby a permissible level of imports of an enterprise is linked to its exports). This is in recognition of the need of developing countries for such measures on development grounds (e.g. the need to build the capacity of domestic firms, generate multiplier effects for the domestic economy, conserve foreign exchange and avoid excessive foreign debt).

The Need to Avoid New Issues in the WTO

These are only a few examples of the changes required to the many existing WTO, changes that are needed to enable the survival and development of the domestic food-farming and industrial sectors of developing countries. Surely the WTO agreements were not meant to, and thus should not, render the South's domestic firms, farms and economy unviable and condemned to oblivion.

The review of implementation problems and the process of initiating the necessary changes in the agreements will not have a chance of being properly carried out if there is a proliferation of new issues in a new Round. The extremely limited human, technical and financial resources of developing countries and their diplomats and policy makers would be diverted away from the review process to defending their interests in the negotiations on new issues. The limited time of the WTO would also be mainly engaged in the new issues.

There will be little time for examining, reviewing and improving the existing agreements, and the problems arising from their implementation will increase through time and accumulate, and manifest themselves in social and economic dislocation and political instability in many countries.

If this is not enough, most of the proposed new issues would also have the most serious consequences for the South's future development. These issues do not belong in the WTO (which is supposed to be a trade organisation) in the first place. They are sought to be placed there by the developed countries to take advantage of the enforcement capability (the dispute settlement system) of the WTO, so that disciplines can be effectively put on developing countries to open their economies to the goods, services and companies of the developed countries.

Developing countries should therefore oppose the injection of these new areas into the WTO. The following is an examination of four of the proposed "new issues."

(i) Investment Issue

The proposal to negotiate an investment agreement would convert the WTO from a trade organisation to one also dealing with a different area, ie investment policy. The present rights of developing countries (as hosts) to regulate the entry, conditions and operations of foreign firms would be severely restricted. Performance requirements, investment incentives, regulation of inflow and outflow of funds, preferences in many areas to local firms and citizens, would be curtailed.

Due to widespread opposition to the original OECD-MAI type model (that was also earlier proposed in the WTO), a watered-down version is now being put forward to make the investment issue more palatable as an entry point. However, there is no doubt that once an investment agreement is in place, even if it is initially a "diluted" version, pressures will continuously be put on developing countries to liberalise, and to curtail their ability to regulate in favour of local firms or to place conditions or obligations on foreign firms. Eventually the viability or development of local firms (and farms) will be threatened.

Given the seriousness of the whole issue, the investment working group should continue its discussions, and the WTO should not initiate a negotiation for an agreement in Seattle.

(ii) Transparency in government procurement

The proposal to initiate negotiations for an agreement (or even to already conclude an agreement) on transparency in government procurement at Seattle is also detrimental to the South. Up to now, government procurement decisions are exempted from multilateral GATT disciplines. By right, states in developing countries have the freedom and option to spend according to their own criteria and development objectives, and preference for local firms is a practice in most countries.

It is argued by the proponents that there is no harm (and every benefit) to developing countries to have greater transparency and reduce corruption and that market access is not part of the proposed agreement. In itself, greater transparency is good. However, in the WTO context, there is no escaping the link between transparency and market access for foreign firms, and when this is also linked to the dispute settlement system, there will be many problems for developing countries.

More importantly, it is well known through earlier papers submitted to the WTO that the real aim of the major countries is the full integration of government procurement (especially market access and national treatment for foreign firms) in the WTO. The transparency agreement would be only phase one. Once procurement enters the WTO in this "innocent guise", the real issues of access and natinal treatment are bound to quickly follow.

Developing countries should therefore reject the "multilateralisation" of the procurement issue, since once the concept of procurement makes an entrance into the multilateral trading system, even in limited form, the full body will eventually follow inside through further intense pressures. The consequences for developing countries will be tremendous as governments would largely lose perhaps their most important direct instrument for achieving social, economic and developmental goals

They should therefore not agree to sign an agreement (or to negotiate an agreement) even on transparency. Instead, the whole issue should continue to be studied in the relevant working group until it is clear what the ultimate intentions of the major countries are and what are the development implications of integration of procurement into the WTO system.

(iii) Competition policy

On the competition issue, it is clear that the major proponents for a WTO agreement on competition policy would like to use it as another tool to gain market access to developing countries which are held to have too many practices and policies that favour local firms and thus work against foreign firms. Through a WTO agreement, developing countries would have to establish competition policies that discipline state enterprises and the practices of local firms; preferential treatment for local firms would also be curbed; in order that foreign enterprises can compete "on equal terms" as locals.

The likely end result is that the smaller local firms will be rendered uncompetitive as any advantages they have left would be largely removed, and large foreign firms or their products would have a greater monopolistic share of local markets.

Many developing countries have perspectives that are different from the above. They would like the restrictive business practices of large multinationals to be curbed and the trend of mergers of giant banks and corporations to be reversed. They also want the abuse of anti-dumping and other trade measures in the North to be stopped, as this is anti-competitive against imports from the South. But the major countries do not share these concerns.

Due to the complexities of the issues and their importance, it is unclear how competition policy should be treated in the WTO. The competition working group should thus continue its discussions. Seattle should not launch any negotiations for an agreement.

(iv) Industrial tariffs

The proposal for a new round of industrial tariff cuts would place great pressure on the developing countries' manufacturing sector. Since their industrial tariffs are generally higher than the rates in developed countries, it is the developing countries that will be asked to make more concessions overall in any such exercise.

Firstly, this is unfair because the developing countries have already liberalised at a faster rate generally in recent years. Also, the developed countries have yet to bring down their high barriers in textiles and clothing, or in agriculture, despite having been given waivers for four to five decades. Their need to continue such very long-term protection demonstrates that developing countries (that have much weaker economies and a much shorter time since Independence to build their own capacities) have an even much greater need to protect their local industries.

It is argued that many developing countries have already reduced their industrial tariffs, mainly under IMF-World Bank loan conditionality. However they are still able to have industrial policies and in future may decide to selectively increase tariffs on some selected products which may be chosen for domestic development. This policy option would be closed should a new round of industrial tariff cuts cause these countries to bind their tariff rates at lower and lower levels.

In many developing countries, there has already been a deindustrialisation process in which the lowering of traiffs leads to imports displacing local industries. Moreover, as earlier mentioned, the UNCTAD Trade and Development Report points out that for many developing countries, rapid import liberalisation led to a high increase in imports that was not matched by export growth, thus causing a widening of trade deficits and balance of payments difficulties which in turn placed constraints on growth.

In light of the above, it would be wrong for developing countries to agree now to another round of industrial tariff liberalisation. To correct the present imbalances, and show their sincerity, the developed countries should instead pledge at Seattle to reduce or eliminate their industrial tariff peaks and escalation, without asking the developing countries to engage in another round of industrial tariff cuts.

Conclusion

The next few months before and at Seattle are crucial for the future of developing countries. The developing countries, which after all are the majority, can shape the WTO to be a pro-development organisation, or we can continue to give in to the pressures from the major developed countries which want to make use of the WTO's enforcement system of trade sanctions to shape the world according to their interests.

We may be unhappy and frustrated with the approach of the North and with the status quo but feelings or even expressions of unhappiness and frustration are insufficient. The situation must urgently be corrected. Developing countries must unite and persuade first ourselves and then the developed countries that this is the time to review the WTO and not to expand its scope further until the review is done and the imbalances and deficiencies are corrected. New issues should not enter until the reform is completed.

The task in the months ahead is great and we must be up to it as the future of our people are at stake.