

# **Trade Talks Collapse - an Analysis**

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The World Trade Organisation (WTO) trade talks in Cancun, Mexico came to an unexpected and abrupt end without any agreement or clear sense of direction for the multilateral trade system. Following two years after the Argentine financial crisis, the collapse of the Cancun talks marks yet another moment in the looming crisis of the international trade and financial system. Accelerated financial liberalisation spearheaded by the International Monetary Fund (IMF) and the World Bank led to a financial crisis in South-East Asia in 1999 and an economic crisis in Argentina in 2001. Demands by the industrialised countries for further trade liberalisation in developing countries while holding on to protectionist measures in their domestic markets led to the collapse of trade negotiations in Seattle in 1999 and in Cancun, Mexico in September.

The emerging crisis in international capitalism exposes the intellectual bankruptcy of the neo-liberal economic model with its near-religious doctrine of “capital accumulation above all else”. Neo-liberal economics has induced the emergence and dominance of powerful transnational in global trade while drastically reducing the role that states can play in their own economies.

The global crisis is characterised by the growing inequality in the distribution of income, high profits by transnational corporations (TNCs), and therefore a growing surplus of capital, which can no longer find an outlet in the expansion of productive systems in rich countries. Penetration of markets in developing countries has therefore become one of the strategies of TNCs to ensure their survival. Policy prescriptions by the World Bank and IMF and trade rules within the WTO are bend to facilitate the needed outlet for this expansion of international capitalism.

The world trade meeting in Cancun was therefore an important platform for industrialised countries (who act in the interest of 'their' TNCs) to pressurise developing countries into opening up their markets. In a rare turn of events, however, the meeting saw developing countries uniting around the need for equity in the world trade system, refusing to bow down to pressures from the industrialised countries and bringing the meeting to a collapse.

## **WTO: World Theft Organisation?**

Founded in 1995, the WTO was set up as a sister organisation to the IMF and the World Bank to establish international trade rules and deal with trade dispute settlements. The aim was to ensure a stable, multilateral economic system, free from trade wars and

economic rivalry. However, industrial countries have turned the WTO into a key instrument of transnational capital in the push for corporate globalisation.

WTO agreements have enabled TNCs to penetrate markets and take over industries in developing countries, leading to destructive effects on the lives and livelihoods of working people and the poor throughout the developing world. These agreements are concluded through a most undemocratic and non-transparent process. The main reason for this lack of transparency and participation is the working methods and the system of decision-making of the WTO.

In terms of formal arrangements, decisions are made on the basis of “one country, one vote” and by consensus, thus giving the WTO the appearance of an organisation in which decision-making is democratic. In practice, the WTO is dominated by a few major industrial countries, which routinely exclude most developing countries from decision-making processes in the organisation.

Perhaps the most notorious expression of this non-transparent and non-inclusive decision-making practice is the ‘Green Room’ process. This refers to the practice of convening small informal meetings (from which the majority of member states are excluded) at which major decisions are taken and then foisted on the remaining states. Despite protests by developing countries against this practice, it has continued. Another controversial issue is the non-transparent and undemocratic system of drafting of texts in the WTO. Texts on WTO agreements are exclusively drafted by chairpersons of negotiation committees and routinely exclude views expressed by developing countries. This process has led some analysts to accuse the organisation of being ‘chair-driven’ rather than ‘member-driven’.

At the WTO ministerial conference in Doha in 2001 a marathon green room meeting resulted in developing countries being coerced into accepting an agreement that could result in expanding the WTO rules to cover a wide range of new areas, including investment, competition and transparency in government procurement.

Developing countries are concerned that an agreement on these new issues (often referred to as the ‘Singapore issues’) will enable TNCs to further penetrate their markets, leading to the destruction of local industries. In particular, subjecting government procurement to international trade will permit TNCs to bid for government tenders in the developing countries. Small, local companies will then have to compete against well-established TNCs in industrialised countries. Local companies, which depend on government tenders and are unable to compete against TNCs will be forced to close down.

Multilateral agreements on investment and competition will drastically curtail policy space available to governments in developing countries. Unlike industrialised countries in their early stages of development, developing countries will be unable to use autonomous industrial policies to steer FDI towards promoting national development objectives. Moreover, expanding the WTO agenda to cover new issues will increase the existing

WTO workload, which is already beyond the capacity of many resource-constrained developing countries.

Having learnt many lessons after the Doha meeting, developing countries came to Cancun better prepared both technically and in terms of unity amongst them. In addition, hordes of international NGOs involved in research on the trade issues were on site to support delegates from developing countries.

The WTO meeting in Cancun was supposed to focus on a number of development-related issues. Most prominently, the meeting was expected to deal with the heavy farm subsidies in industrial countries, which prevent poor countries from competing on equal terms on the global markets, leading to major losses of revenue for their farmers. Industrial countries are said to spend about US\$ 300 billion per year on farm subsidies. A study by Oxfam estimated that the US cotton subsidies alone cost African farmers about US\$ 301 million in lost revenue in 2001-2002.

Developing countries further expected the Cancun meeting to deal with their legitimate concerns regarding the implementation of current trade rules, which benefit industrialised countries at the expense of socio-economic development in poor countries. To the disappointment and outrage of developing countries, the meeting was manipulated by industrialised countries to focus on the 'Singapore issues'. The insistence by major industrialised countries on launching negotiations on these issues against the united opposition of developing countries led to the eventual collapse of the trade talks.

### **Trade Liberalisation: Curse or Cure?**

African countries are faced with many development challenges, which include poverty alleviation, job creation, provision of social services etc. Acting upon the “advice” of the international financial institutions, most African countries have embarked on the promotion of export industries and attracting FDI in efforts to tackle the above challenges. Moreover, in keeping with WTO requirements, governments have reduced trade tariffs and have embarked on the commercialisation and privatisation of public enterprises. The rationale is that trade liberalisation will inject much needed capital into developing countries, leading to economic growth, job creation, and the reduction of poverty. However, while the policy might have led to growth in some export industries, empirical evidence has shown that trade liberalisation has led to the destruction of jobs, livelihoods and has worsened poverty in many African countries.

In South Africa, for example, statistics show an increase in certain exports, but job losses in the textile industry have amounted to more than 130 000 since the country embarked on an economic liberalisation programme in 1995. Between 1996-2000, 138 000 jobs were lost in the mining sector while 120 000 were lost in the public service over the same period.

In other sectors such as the pharmaceutical industries, TNCs have taken over local manufacturing companies and turned them into packaging and distribution outlets for

imports from their subsidiaries based in industrialised countries. Similarly, after adopting IMF and World Bank imposed “structural adjustment” measures, Ghana has shown “positive” economic indicators such as an increase in exports, lower inflation, reduced budget deficit etc. However, the country has been experiencing a destruction of livelihoods for many people due to the take-over of local industries by TNCs and the influx of cheap products from industrialised countries.

In light of the above, some African policymakers have challenged the notion that economic liberalisation is the panacea to the continent’s developmental challenges. The history of economic development reveals that no country in the world has developed by liberalising their economies before establishing inward-looking domestic industries. Industrialised countries and the newly industrialised countries in Asia, used protectionist measures and inward-looking industrial policies in their early stages of development to develop auto-centric industrial structures. Their keenness to prevent developing countries from using the same policies has led analysts to accuse the rich countries of ‘kicking away the ladder’ that they used to climb up to their prosperity.

Samir Amin, a leading development analyst and Director of the Third World Forum, argues that African economies are more integrated in the world system than most developed countries. He illustrates this by pointing out that in 1990 the ratio of extra-regional trade to GDP for Africa was 45.6 % while it was only 12.8 % for Europe. These ratios were not significantly different throughout the twentieth century. In his view, Africa’s poor performance in international trade is rather caused by mall-integration and not by a lack of integration into the global economy. The reason for this mall-integration is that, unlike the industrialised nations, the continent failed to develop inward-looking industrial structures prior to its integration in the world economy. As a result the continent only 'adjusts' to a system shaped by the industrial nations. This is why African countries export mostly primary products demanded by industries in developed countries and import finished products supplied by those industries. Therefore, instead of focusing on outward looking export promotion, African governments may have to utilise their scarce resources to embark on a path of internal development, if they are to have any active part in determining their integration in the global economy.

## **Searching for alternatives**

The neo-liberal economic model is failing in Africa. Trade liberalisation as advocated by neo-liberal economists has led to more misery and social decay on the African continent and elsewhere in the developing countries. The WTO is being manipulated to advance the interests of international capitalism, leading to the destruction of the rights, working conditions and livelihoods of people in developing countries.

While economists and other social scientists are searching for alternative economic models (including the Keynesianism, endogenous growth theory, the Austrian school critique of neo-classical economics etc.) African countries will have to reconsider their trade strategies. Countries might have to shift the focus of their limited resources from the promotion of export industries which are dependent on industrial countries’ markets

towards the development of domestic industrial structures as part of regional blocs that will move beyond the mere rhetoric of regional integration and economic co-operation.

At the same time developing countries will have to use the unity and firmness demonstrated in Cancun to demand the following corrective measures in the world trade system:

- The long-awaited reform of the WTO to make it more transparent, democratic and responsive to the development concerns of developing countries.
- The rolling back of the power and authority of the WTO to make it accountable to UN rules and conventions
- The strengthening and expansion of the role of the United Nations Conference on Trade and Development (UNCTAD) in international trade.
- A halt to further trade liberalisation initiatives (at both multilateral and bilateral level) until issues of inequity in the global trade system are addressed.

In addition, developing countries have to critically assess policy prescriptions by the World Bank and IMF and avoid adopting policies that lead to the expansion of global capital at the expense of socio-economic progress in their own countries.

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