Trade Talks: Where is the Development?

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It was a close thing. But after six days of arm-twisting, all-night bargaining sessions and closed-door meetings in Hong Kong, an eleventh-hour concession by Europe on farm subsidies saved the December 2005 summit meeting of the World Trade Organization (WTO) from another embarrassing collapse. The European move kept the troubled global trade liberalization talks, launched at Doha, Qatar, in 2001, alive -- but just barely. UK Trade Minister Alan Johnson described the agreement reached in Hong Kong as only "one step up from failure." Even WTO Director-General Pascal Lamy, who praised the 13-18 December summit for bringing the talks "out of hibernation," conceded that negotiators were barely past the halfway point a year after the round was supposed to be finished.

Four years after the industrial North promised that Doha's central purpose would be to aid the world's poor, many African and other developing countries are beginning to question not just the outcome in Hong Kong but the fairness of the global trading system itself. In their view, key parts of that development agenda have been shunted to the back burner of the negotiations or ignored entirely. The mounting scepticism of the South was reflected by African trade ministers meeting in Arusha, Tanzania, on 24 November, when they denounced the talks for "failure to deliver any tangible results on development issues, despite the characterization of the work programme launched at Doha as a development round."

With negotiations scheduled to resume at WTO headquarters in Geneva on 30 April, a growing number of economists, trade experts and non-governmental advocates in both the North and the South are echoing the ministers' assessment - questioning not just how to turn up the heat on development issues, but whether the concerns of developing countries were ever on the stove at all.

The Doha agenda

The decision to label the Doha process a "development" round reflected the new assertiveness of poor countries at the WTO. The trade group's 1999 meeting in Seattle ended in failure in part because developing countries, led by Africa, refused to launch talks on new issues until inequities in the previous trade agreement, known as the Uruguay Round, were fixed. To secure consent on talks in areas of concern to them (see Africa Recovery, December 2001), developed countries agreed in Doha to include a number of "development" issues of particular concern to Africa, including:

- Correcting the inequities of previous trade agreements
- Eliminating Northern agricultural subsidies, totalling some $350 bn annually, which depress world prices and bring unfair competition with unsubsidized African produce

- Strengthening "special and differential treatment" provisions that allow flexibility in how poor countries adjust to WTO agreements
- Improving access by developing countries to consumers in rich countries, including duty-free access for the exports of the 50 nations designated as "least developed countries" (LDCs), 33 of which are in Africa
- Expanding "aid for trade" to help African countries produce more for export, improve skills and efficiency in trade-related institutions and defray the cost of complying with WTO rules.

The absence of progress on this "Doha Development Agenda" led to the collapse of the 2003 WTO summit in Cancun, Mexico, when frustrated developing countries again rejected new talks. Continued deadlock in the vital negotiations over agricultural subsidies and inaction on most other development issues seemed likely to doom the Hong Kong meeting as well. "Development outcomes in each of the negotiating areas remain the raison d'être of the round," the African trade ministers cautioned.

"Tangible development results at Hong Kong must be evident."

Their message was reinforced by a statement to the Hong Kong meeting by UN Secretary-General Kofi Annan on 13 December. "Development -- real gains in real peoples' lives -- remains the primary benchmark for success of the Doha Round," he declared. "Whatever other smaller steps your negotiations achieve, development writ large is the standard against which your efforts will be judged."

Devil in the details

The last-minute announcement by European Union Trade Commissioner Peter Mandelson that the EU would eliminate farm-export subsidies by 2013, combined with acceptance of a package of modest benefits for the LDCs, promises of increased funding for "aid for trade" and limited moves by Washington to address the particular demands of West African farmers injured by US cotton subsidies (see box), was enough to salvage the negotiations.

In return, African and other poor developing countries agreed to expanded talks over liberalization of services, a longstanding European and US objective. Developing countries also agreed to further cuts in industrial tariffs under a formula that could see them open their markets to imported manufactured goods more rapidly than will the US, Europe and Japan. The issue, explained Benin's chief trade negotiator, Ambassador Samuel Amehou, is not whether it was necessary for developing countries to compromise at Hong Kong, but whether the overall deal advances their economic interests and contributes to development.

The full answer, like the devil, lies in the bewilderingly complex details of the agreement, many of which must still be negotiated. Nevertheless, a number of analysts in both the North and the South argue that, in virtually every sector, Hong Kong was a setback for Africa's development goals and a betrayal of the promise of the Doha agenda.

In agriculture, trade expert Aileen Kwa told Africa Renewal, "developed countries really didn't do anything on their subsidies besides making much of the European end date" of 2013. Ms. Kwa, a member of Focus on the Global South, a non-governmental research and advocacy group, noted that the EU offer applied only to export subsidies, totalling â‚¬3 bn annually, while â‚¬55 bn in domestic and other types of subsidies are classified as "non-trade distorting" and will therefore continue.
The same is true of US farm subsidies, she asserted. "There is almost no actual reduction. You really can't separate out domestic production from export production, so virtually all subsidies end up being export subsidies, and that hurts small farmers" in poor countries.

Setback in tariffs, services
The deal on industrial tariffs is no better. At the Hong Kong summit, developing countries reluctantly agreed to a formula for reductions that could require poor countries to cut levies on manufactured goods more rapidly than wealthy states. African trade ministers argued that structural adjustment programs and bilateral aid agreements outside the WTO framework have already forced deep reductions in their tariffs and that further cuts are both unfair and unwise.

The agreement, Ambassador Amehou told Africa Renewal, "will not serve the development of our countries. We also want to get industrialized.... We have told our [developed-country] colleagues that we have already done a lot because of IMF and World Bank conditionalities. We should not have to do more than we have done. It will lead to the de-industrialization of our countries. We are afraid the world will overwhelm Africa with their goods."

In services, developing countries sought greater access to Northern markets for labour-intensive service industries such as construction and shipping, in which low wages give them a competitive advantage. They also sought to preserve development-friendly aspects of the old rules that allowed them to shield weak industries like banking and tourism from international competition. Instead, Ms. Kwa noted, "developed countries got what they wanted -- quite far-reaching negotiations over whole sectors of developing country economies," without making matching concessions.

Coming up short
An agreement to give duty- and quota-free access to 97 per cent of LDC exports to Northern markets was hailed as a major breakthrough at Hong Kong. But even that, critics say, is more symbolism than substance. The offer sounds good, said Mr. Tetteh Hormeku, the program director for the Africa secretariat of the non-governmental Third World Network, but even 100 per cent duty-free access for LDC exports counts for little if countries have little to trade. Although about one in eight of the world's people live in a least developed country, the economies of those countries typically produce few products for trade and account for barely half a per cent of global exports.

As it is, Mr. Hormeku said that the maintenance of tariffs on the remaining -- but significant -- 3 per cent renders the agreement virtually meaningless. "That 3 per cent potentially allows developed countries to lock the LDCs out of their markets." Under the agreement, he pointed out, a developing country like Zambia could have the right to export duty free to the US aircraft and computers -- items Zambia does not manufacture -- "but not things like copper and rice that they actually produce."

Helping LDCs increase the diversity and quality of their exports would enable them to take greater advantage of the agreement. Towards that end, developed countries announced expanded "aid for trade" programs as part of the LDC package. But once again, poor countries' interests came up short.

Zambia's chief negotiator, Ambassador Love Mtesa, spoke for many African governments when he told reporters at the summit: "Economic liberalization . . . has led to unemployment and closure of Zambian companies. If aid for trade is to make sense it must address supply-side constraints" --that is, by helping poor countries increase the number and quality of products available for export. Industrialized countries emphasized instead that expanded aid programs are intended to assist poor countries implement WTO rules.

"This aid for trade doesn't address our core problems," Benin's Ambassador Amehou concurred. "I will give the example of my country. We used to export shrimps to the European market, but last year we got problems with phytosanitary [health] requirements. We don't have the laboratory to make the inspections." Helping Benin build and equip the necessary inspection facilities, he said, "is a practical example of how aid can help us. You can get the best rules, but if you can't produce, you can't take advantage."

Business as usual

African countries also failed to make headway in efforts to correct damaging inequities and imbalances in existing trade rules, a problem known as "implementation issues" in WTO parlance. African demands for "special and differential" treatment (S&D) provisions -- intended to give poor countries greater flexibility in applying WTO rules -- fared no better.

The failure of developed countries to address poor countries' concerns about implementation issues and S&D contributed to the collapse of the 1999 WTO meeting in Seattle. Since then, Mr. Hormeku noted, developing countries have made more than 200 separate proposals for modifications in existing agreements and improvements to S&D. By the end of the Hong Kong meeting, however, only five were adopted, including a temporary exemption on rules governing trade-related investment and language "urging" donors not to undermine S&D measures through bilateral aid and loan conditionalities. Even these modest concessions are limited solely to the LDCs.

On balance, said Ambassador Amehou about Hong Kong, "the final results were really below our expectations. We were expecting more in agriculture, on LDCs and S&D. But we only got small progress in export subsidies, small progress for the LDCs and nothing special on implementation issues."

Northern agricultural subsidies were Africa's primary concern, he continued, "and on domestic subsidies Africa was really expecting results. But nothing was done! We want to continue negotiations in Geneva to get something better, but that will depend on the political will of the US and EU." Right now, he declared, "the negotiations are suffering."

More than four years after the beginning of the "Doha Development Agenda," the ambassador said, it is hard to take the label seriously. "Where is this 'development' round? Does it still have meaning to speak of a development round when we don't have S&D? No good provisions for the LDCs? Where the aid for trade is not practical? We don't see anything really to tackle these issues and boost the economies of the developing countries. In the end, it's business as usual."

Overall, asserted Mr. Hormeku of the Third World Network, "trade liberalization has not been beneficial to African economies. We have not improved our location in the global economy. We have not moved out of dependency on primary commodities. We have not moved into more efficient provision of manufactured goods and services. We are on the receiving end of the global economy, which is repatriating our resources and locking in IMF and World Bank conditionalities through trade agreements.... What we have at the moment is a trade paradigm that African countries should open up all sectors of their economy to foreign providers in a context that destroys the basis for domestic production and jobs. It can never lead an African country out of poverty."

Vanishing benefits

The sceptics' arguments have been strengthened by the failure of the global trading system to deliver prosperity and economic development for the African poor. By most measures, Africa is poorer, less industrialized and less of a contributor to world trade than in 1986, when the launch of trade talks in Uruguay marked the beginning of the modern era of trade liberalization. Twenty years later, new research by the World Bank has led some economists to conclude that Africa may have failed to reap the promised benefits of free trade because they were never really there.

In 2003, a study by the World Bank predicted that successful completion of the Doha talks would generate a staggering $832 bn of new wealth by 2015, with most of that amount, $539 bn, going to developing countries -- enough to lift 144 million people out of poverty. The figures were widely cited by trade negotiators, journalists, anti-poverty advocates and senior UN officials in urging poor countries to liberalize more quickly.

More recent research, however, casts grave doubts on the earlier, rosy estimates and raises new questions about the value of trade liberalization as a development tool for poor countries. In advance of the Hong Kong meeting the World Bank reported that, under ideal conditions, including such unlikely developments as the elimination of all tariffs and agricultural subsidies and full global employment, Doha would generate $287 bn in new wealth by 2015 -- just a third of the 2003 estimate. Under this admittedly unrealistic model, developing countries would gain just $90 bn, or 31 per cent of the benefits, with the balance going to wealthy countries.

When more realistic assumptions are used, the same researchers concluded that Doha would produce only $96 bn in total gains -- with $80 bn flowing to the industrialized North and just $16 bn to the developing South.

Far from Africa being able to "trade its way out of poverty," a detailed analysis of the World Bank report by two US researchers, Timothy Wise of Tufts University and Boston University Professor Kevin P. Gallagher, found that the Bank's "realistic" analysis of a Doha agreement would increase the average income of each citizen in a developing country by less than one US cent per day and reduce the global poverty rate by less than half a per cent. "Hardly a good advertisement for this so-called 'development round' of global trade talks," they observed.

Moreover, half of the expected gains, some $8 bn, would go to only eight countries: Argentina, Brazil, China, India, Mexico, Thailand, Turkey and Vietnam. The LDCs, with the smallest and weakest economies, would likely benefit the least. The costs and losses associated with continued liberalization are spread more widely, however. Wise and Gallagher, citing additional World Bank studies, estimated that the administrative cost of complying with WTO-mandated requirements in just three areas -- food sanitation, intellectual property and customs reforms -- would average $130 mn per year for each poor country, for a global total of some $4.4 bn.

Deep cuts in tariffs could also prove costly for African and other developing countries. According to the UN Conference on Trade and Development (UNCTAD), tariffs generate about 20 per cent of government revenue in developing countries. That figure is far higher than in developed countries and represents a vital source of funding for health, education, infrastructure and other development programs. Depending on the final outcome of negotiations on tariff reductions, UNCTAD estimates that revenue losses in poor countries could reach $60 bn.

'Liberalization hinders development'

The failure of trade liberalization to deliver on its development promises is leading a growing number of economists to question whether trade liberalization helps or hurts the poor. Dr. Thomas Palley, an economist at Yale University, wrote in early 2006: "Mainstream policy economics has been gradually lowering its claims about the positive impact of trade on development and poverty reduction.... A decade ago, mainstream policy economics argued vigorously that trade promotes development. If this were true, given the massive increase in global trade over the last 25 years, the global economy ought to have experienced accelerated growth. Instead, global economic growth has actually slowed relative to the prior quarter-century. This suggests that trade is at best only weakly associated with growth" and even more weakly with poverty reduction.

In a Washington-based publication, Foreign Policy in Focus, Dr. Palley argued that while growth is necessary to reduce poverty in developing countries, it is not sufficient. "Increased welfare rather than growth is the real goal of economic policy," he observed. The claim that increased trade automatically reduces poverty "is belied by the increasing income ratio of North to South.... The widening wealth gap is prima facie evidence that any beneficial trade effect is at best weak."

Arguing that poor countries should consider abandoning free-trade development models in favour of protecting and developing their domestic markets, Dr. Palley cited recent research to conclude that expanded trade is a result of development, rather than a cause of development.

Bad faith

The World Bank's former senior economist, Nobel Laureate Joseph Stiglitz, is also questioning the link between development and free trade. "As chief economist of the World Bank, I reviewed the Uruguay Round of 1994 and concluded that both its agenda and outcomes discriminated against developing countries," he wrote in December 2005.

"Both as it was conceived, and even more as it has evolved, today's development round does not deserve its name," he continued. "Many of the issues that it has addressed should never have been on the agenda of a genuine development round, and many issues that should have been on the agenda are not.... Those in the developing world who believe that there has been a history of bargaining in bad faith have a strong case."

In an essay entitled "Fair Trade for None," he noted, "Unsurprisingly the rich countries' negotiators throw around big numbers when describing the gains from even an imperfect agreement. But they did the same thing last time, too. Developing countries soon discovered that their gains were far less than advertised, and the poorest countries found to their dismay that they were actually worse off."

With negotiations to complete the Doha round looming, the economist cautioned, "Will the benefits -- increased access to international markets -- be greater than the costs of meeting rich countries' demands? Many developing countries are likely to come to the conclusion that no agreement is better than a bad agreement, particularly one as unfair as the last."

Hard landing for African cotton

For years West Africa's 10 million cotton farmers have demanded an end to nearly $5 bn in domestic and export subsidies for US cotton that have driven down world cotton prices and reduced the farmers to desperate poverty. African demands were led by the "Cotton Four" -- Benin, Burkina Faso, Chad and Mali -- which rely on the fibre for 40 per cent of their annual export earnings. They called for the elimination of some $644 mn in US export subsidies for cotton by the end of 2005, an 80 per cent reduction in nearly $4.3 bn of domestic subsidies by the end of this year and the elimination of remaining payments by 2009. Most US cotton subsidies were ruled illegal by a WTO dispute panel in 2005. Africa sought compensation for financial losses, estimated at $250 mn annually, along with improved technical assistance and market access.

What they got instead was agreement by the US and other developed countries to eliminate export subsidies by the end of 2006 and reduce "trade-distorting" domestic payments faster than for other crops as part of an overall trade deal. The US also offered to increase technical assistance from $2 mn to $7 mn annually and to provide duty-free access for West African cotton. Critics point out that tying reduction of US domestic subsidies to a successful conclusion of the entire Doha round of talks could leave them in place for years despite the WTO ruling. They also argue that $7 mn in aid is poor compensation for $250 mn in annual losses. Benin's chief trade negotiator, Ambassador Samuel Amehou, dismissed Washington's market-access offer, noting that it is subsidies, not tariffs, that make African cotton uncompetitive in US markets.