

## The international trade system needs to reinvent itself !

*Myriam Vander Stichele - July 2008*

The collapse of the WTO talks at the end of July 2008 was not a surprise. While the press has been extensively quoting the US, which blamed India for the failure, no mention was made of the fact that the US and Europe had pushed the interests of developing countries during previous negotiations (the Uruguay Round, 1986-1994) and integrated mainly their own interests in the WTO agreements (including those on agriculture, textiles, services, intellectual property rights). Now that developing countries insist upon putting the Doha Development Agenda into practice, there is talk of “unbridgeable differences” and those same developing countries are blamed. India insisted upon safeguards against a sudden surge in agricultural imports because the rich countries were still not willing to fully eliminate their export subsidies. In India, as well as in China and other developing countries, farmers remain vulnerable and often gain little from their countries’ economic development. Strong competition from foreign agricultural products could lead to serious social unrest.

The conflict in the WTO has brought differences over free trade into the open. Developing countries have already removed many import barriers and domestic support in the agricultural sector, pressured by the World Bank or by implementing the WTO rules. Their experience is that this did not bring the promised benefits. The food crisis clearly shows that too many food imports destroy production capacity in developing countries and create dependence on unstable and sometimes sky high world food prices. In addition, WTO rules in different sectors forbid developing countries to take those (protective) measures that industrialised countries used in order to develop their own economies (‘kicking away the ladder’). Asian countries like South Korea and Japan were still able to build their industries behind tariff walls and with support from the government. The services sectors in the developed countries had no international restrictions in order to develop those sectors (the services agreement of the WTO – GATS now imposes many regulatory restrictions).

Developing countries consider that the inflexible demands from developed countries for more market access in the agricultural, industrial and services sectors throughout the Doha Round would undermine their economic development, resulting in unemployment and poverty. Even on the day that the talks collapsed at the end of July 2008, there were still demands from developing countries that had not been resolved, such as for cuts in US cotton subsidies. Had the talks not collapsed over agriculture or non-agricultural goods (NAMA), the EU and the US were ready to press for far-reaching market access in the services sector.

However, the conflicts at the WTO have to be understood by looking at more fundamental problems in international trade policy: 1. the unfinished international trade architecture, and 2. the unfair decision-making structures on trade issues

### **The unfinished international trade architecture**

The current free trade model of the WTO results in a relentless economic battle between very different countries whose aim is simply to defend their own interests. It has also resulted in more countries being dependent on market access in other countries as a means to secure their own economic growth.

When the new international economic system was being designed at the end of World War II, many of the problems of international competition were already foreseen. The aim was to raise living standards, ensure full employment and increase real income. However, the agreed international

solutions (Havana Charter, 1948) were not implemented because of US opposition. This has left the international trade system with the following problems:

First, the WTO creates a free market at world level without international competition laws against oligopolies and unfair trade practices. This leads to concentration on the world market by a few corporations, e.g. in agricultural products and commodities (more than 80 per cent of the world grain trade is in the hands of three American companies ADM, Cargill and Bunge). As a result, many producers, workers and small farmers at the beginning of the value chain have too little bargaining power, leading to unfair distribution of the benefits of trade.

Secondly, labour standards that have been agreed in the Conventions of the International Labour Organisation (ILO) have few international instruments to enforce their implementation. As a result, it is difficult to stop the downward spiral of labour standards and ever lower wages in some sectors caused by harsh international competition or market concentration. The consequence is that many people do not receive the benefits from trade.

Thirdly, international commodity agreements made in the past aimed ensure regularity of income to those developing countries that were very dependent on exports from just a few (often competing) commodities. When industrialised countries replaced the imperfect commodity agreements with international free market mechanisms, however, these developing countries were left facing very low commodity prices for decades and had too few means to switch their production and exports.

Fourthly, international financial institutions (IFIs) like the IMF and the World Bank were designed to prevent large trade deficits or surpluses, large debts, excessive currency fluctuations and to provide financial means to support countries' development. However, the IFIs have not tackled the deficits of the US but have instead imposed free market ideology on developing countries.

The picture has become even more complex now because export-led production and trade clearly show negative consequences for the environment and climate change, e.g. through the increased transport and consumption resulting from trade.

### **Unfair decision-making structure about trade issues**

The unbalanced development of the international trade system has been reinforced by the dire decision-making structure at the WTO and within the WTO member states.

At the WTO, consensus is still being extorted by excluding some members from decisions. For example, only about 34 of the 153 member states were present at the July mini-ministerial meeting in 2008. What is lacking here is a clearly agreed structure by which each country is guaranteed proper representation. Another serious but often overlooked problem is the arm-twisting and other kinds of undue pressures that rich countries, including the EU, are using towards developing countries, such as threatening to withdraw aid.

Within each of the WTO member states and in the EU, there is hardly any democratic decision-making about the mandate that defines the national or EU negotiation position in the WTO negotiations. Research by SOMO and others showed how the EU's position is primarily determined by the interests of big companies which have the means to engage in active lobbying. Since the business lobby is also strong in other countries like the US, the trade interest of a country is often being made identical to the interests of large companies, whereby social, societal, environmental and other economic interests are being foregone ('corporate globalisation').

## **The way forward**

So, what needs to happen now? To continue negotiating in the WTO in the same way, or focussing instead on bilateral or regional trade agreements whose aim is to increase market access, is the wrong answer. The collapsed WTO talks and the visible change in power relations now allows for another approach. The WTO rules, which are now enforceable through sanctions, and submit national and international policy to free trade ideology and market mechanisms, must be replaced by flexible rules that support development goals and production, trade and consumption that is sustainable (i.e. equitable, oriented towards poverty eradication, and environmentally friendly). The new international trade architecture needs to give priority to human rights and labour standards, equitable commodity and food prices, rules against market and corporate abuse, saving the environment and the climate. This should be achieved through cooperation and enforcement at international level through existing UN organisations, which are mandated to impose sanctions if cooperation does not work. This should be the framework to achieve sustainability and poverty eradication, within which the rules of an international trade organisation are defined and real abuse in trading (e.g. dumping) is being tackled. Political courage will be needed in each country if we are to achieve another trade system that, at the very least, does not prioritise corporate interests. Or should we wait for another crisis?

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