

WTO's contribution to sustainable development governance: balancing opportunities and threats

Conference, Paris, 20 & 21 October 2005

Trade and Development: What Can Be Expected from the WTO?

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A lot is expected of the WTO by developing countries at the Hong Kong ministerials in December and if the Doha Round is to be completed in 2006 (including stopped-clock time). Much of it is no doubt pie-in-the-sky, and many small and weak countries and member governments from the developing world will be disappointed (and western ngos will complain bitterly). Yet developing countries represent the absolute majority of WTO members – even if development is not formally the primary function of the Organization. This paper explores one possibility for the WTO to have a stronger development role in future, yet remain faithful to its founding principles – the WTO, or its set of rules and negotiating habits, is, after all, already considered by some to qualify as an international public good in its own right. We must support and preserve (but constantly reform) international treasures as we do our national assets.

The WTO – and more pointedly these same procedures referred to above – was famously once dismissed as “medieval” by a French socialist. Yet, warts and all, it is the closest we have to a 21st century international organisation regulating and I would say potentially developing world trade. [And world trade remains the engine of growth of the world economy – however much we wish to avoid social damage in poor and indebted countries, limiting ourselves to PRSPs which merely recycle resources towards public sector social spending will not on its own revive economic development in the short-to-medium term.]

Created in 1995 after Marrakesh, the WTO is only a decade old. The WTO is neither a UN institution (it could have been but decided against) nor a Bretton Woods Institution (though as the ITO it would have been without the US veto). Consider how those deeply entrenched 20th century organisations have aged (or “matured”): the UN's 60th anniversary so recently celebrated in New York essentially staked the organisation's future on the need for reform (even the very 21st century MDGs were deemed likely to be missed for many developing countries); the World Bank and the International Monetary Fund were told this very week by the G20 – rich as well as poor countries – that they had not kept pace with changes in the world and among their members, and it was time to improve their organisations' governance, strategy and operations; indeed Mr Bolton and Mr Wolfowitz are on the case in the above instances. Even the EBRD, one of the last 20th century institutional creations, is older than the WTO by a few years – and the progress made in central and east European countries, with more to come further east, means it may be in a position to declare mission accomplished and to disband fairly shortly. Still, the WTO inherits considerable baggage from the GATT its predecessor.

The WTO in contrast is needed this century. Any such organisation draws strength and purpose from its members as well as its staff and its rules. Every one of its member states has one vote, however lowly, small or poor they may be – if it were ever to come to a vote. And with developing countries in the majority, there is scope for expecting much more on development than just capacity-building to conform to norms or to negotiate a little harder or more subtly. It is also run by that French socialist above, though he cannot operate without the support of his members.

Paradoxically, although viewed by many (especially, dare I say, *cis-Manche*) as liberal, the WTO is at base a mercantilist construct and a mercantilist organisation. It could conceivably be more liberal. (So could the USA and the EU, let alone Norway Japan and Switzerland on agriculture.) Rounds operate on the assumption that any member conceding trade access or tariff reductions on goods needs to negotiate a commensurate offer in exchange – this despite the knowledge of Ricardian economics which ought to lead members to believe that trade liberalisation benefits the liberalisers. So offers are themselves traded.

My proposal is to build on this solid if anachronistic foundation of the WTO/GATT and strengthen its regulatory capacity among the majority of its members by turning such trades into a development support and even mitigation function. Bound tariffs, if violated, give rise to penalties and the payment of compensation. Why not replicate this in the areas of interest to developing countries which are finding it hardest to adjust to the current changes (loss of non-reciprocity, loss-of-preference, loss of tariff revenue unreplaceable by new taxes, external trade shocks which are occasioned by other members rather than Acts of God, etc.) and put the WTO in charge of managing the compensatory flows multilaterally on behalf of its members?

The changes needed at the Hong Kong Ministerials and to complete the Doha Round in the interests of developing countries are not just about agriculture – NAMA – the Disputes Settlement Mechanism - the Green Room - or even S&DT itself. The choice of adopting the 50 Least Developed Countries set from the UN as a trade preference grouping arguably makes things worse by setting neighbour against neighbour in the developing world, sometimes within an already existing regional economic and trade grouping or even within a customs union. Developing countries – all of them, not a sub-set of nominally Least Developed – are interested in a form of trade justice, but it is not the one which European NGOs always campaign for. They realise, as the earliest welfare economists, almost of Ricardo's era, would have told them, that change will create opportunities but there will be winners as well as losers. It is better that some organisation accept the stern task of compensating the losers appropriately using a share of the winners' gains. Otherwise some members will be tempted to walk away from the game – and they are likely to suffer more, as weak, small countries from bilateral negotiations if they lose the protection of voice-and-eventual-vote in MTNs; they would lose even more from autarky.

Some examples:

1. Brazil and India are likely to be major beneficiaries of agricultural trade liberalisation; Africa and the islands are more likely not. This mere outcome burdens the interest of negotiations.

2. Though it was known for a decade that the (heavily back-loaded) MultiFibre Arrangement would come to an end this year, there was no mechanism to mitigate the situation whereby China would have the capacity to respond whereas semi-traditional preference-receivers over the past thirty years would suffer abrupt withdrawal of footloose investment, especially in garments and some cloth.

3. Sugar Protocol beneficiaries, which have known their managed-market rents were going to expire one day for much of the past thirty years, if only so as not to discriminate too blatantly against poorer countries, let alone the more efficient producers, are currently being offered E 40 million pa by the EU to adjust. They would probably settle for E 200

million up to a period now stated as 2008-2016, but negotiable – and the sooner they do it, the better for them. Those who do produce sugar uneconomically can raise their economic game in another more productive sector. (I once cited in Georgetown Guyana before the SAC, the recent restructuring experience of the coal-mining industry of northern France as an example to follow – it drew on enormous adjustment assistance from the state coffers. But in reply was published an article by Ambassador Heaven of Jamaica entitled “We are Not the Coal Miners of the Caribbean”. Had there been an honest broker standing by to manage appropriate adjustment resources impartially, the out come might have been more positive. This could be the new role for the WTO, and a way of securing a consensus on Doha.)

There are pitfalls. But we are in a position to learn, with a new preference-compensation fund run by a new(ish) member-representative administering body, the WTO, from the mistakes of slightly similar schemes from the past:

- the current Trade Integration Mechanism
- the IMF’s earlier CFF and CCFE
- the World Bank “insurance“/market information scheme for farmers producing soft commodities
- Stabex itself (which was based on partial earnings fluctuations with dual causes, not preference loss)
- and the OPEC “cartel” (for every OPEC, there is an OPEC Fund)

True, there are other downsides. It is tough to be fair. There will be free-riders. New distortions will arise, since all estimates and forecasts are fallible – and that is before the bargaining starts. Lastly, there is a risk of putting too much quasi-fiscal if compensatory power and resources into public sector coffers to be administered by an international public service bureaucracy. [Another oil-for-food programme comes to mind.] Trade is, after all, primarily conducted between private entrepreneurs making markets within a regulatory framework nowadays.



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