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Misconceptions and myths about the WTO, trade, development and AID

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Faizel Ismail, permanent representative of South Africa to the World Trade Organization presented this text as guest speaker at the Development Assistance high level workshop on the issue **Europe and Emerging Countries**. This workshop was organized by DGCID and IDDRI and held at the European Investment Bank in

Luxembourg on 7th and 8th March 2007.

Faizel Ismail, représentant permanent de l'Afrique du Sud à l'OMC, est intervenu comme orateur lors du dîner de l'atelier européen de haut niveau sur « **L'Europe et les pays émergents** » avec ce texte.

L'atelier était accueilli par la Banque européenne d'investissement, à Luxembourg, les 7 et 8 mars 2007. Organisé par la direction générale de la coopération internationale et du développement (DGCID) du ministère des affaires étrangères, et par l'IDDRI, cet atelier, s'inscrit dans les travaux sur l'aide au développement.

Ce texte n'engage que son auteur – This text only reflect author opinion
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There are three misconceptions that I will address: First, Development is equal to S&D and Aid! Second, Developing Countries are reluctant participants in the DDA negotiations. And third, on Aid for Trade, there were three misconceptions that arose: i) Aid does not belong to the WTO; ii) Developing countries want to make the WTO a development institution and; iii) Aid is being used as a substitute for trade solutions (to buy off developing countries). In the conclusion, I will suggest why Aid for Trade can contribute towards a Development Compact in the WTO.

Is Development equal to S&D and Aid in the WTO?

My proposition is that they do not constitute the core development content of the WTO.¹

Special and Differential Treatment issues are related to three main concerns of Developing Countries. First, Market Access (mainly concerned Preferences); Second, Flexibility in the Rules and third, Aid for Technical Assistance and Capacity Building. These concerns are reflected in over 150 provisions in the GATT since 1947.

Market Access was mainly about preferences which served to ameliorate and compensate somewhat for the increasingly high barriers erected in the US, Japan and the EU against agricultural imports and Textiles. Preferences were based on the colonialist system preferring some developing countries and not others, and thus fundamentally discriminatory.

As the GATT developed the rules reflected the competitive capacities of developed countries. In manufacturing where developed countries were very competitive, the UR TRIMs Agreement abolished subsidies. Whilst in Agriculture the boxes created in the UR Agriculture Agreement (Amber, Blue and Green), to provided some disciplines on trade distorting subsidies, contained enough loopholes to allow the EU and US to actually increase their expenditure. On intellectual property rights, the TRIPS Agreement provided increased protection for largely developed country research and development. Thus the call for S&D flexibilities by developing countries in the TRIMS agreement and TRIPS were largely to ameliorate this inequity.

Capacity Building was largely a best endeavour effort in the GATT and was directed mainly at the capacity of countries to participate and implement GATT rules rather than address supply side issues.

As the Chair of the CTDSS for two years, it took me some time to ponder why it was that developing countries were so keen on resolving the 88 S&D proposals that were put on the Agenda at the Doha Ministerial Conference. These proposals called for the existing S&D provisions to be made more precise, mandatory and operational.

However, these issues, in my view, do not constitute the Development Dimension of the GATT/WTO. They remain important in the system and are still valid. Their basic purpose is to recognize that vast differences remain in the economic and trade capacities of developed and developing countries. So what then does constitute development in the WTO? After many walks around the Lake in Geneva, pondering this question, I drew on the work of Amartya Sen and developed four essential dimensions of Development in the WTO.

¹ See Ismail, F. 2005. "Mainstreaming Development in the World Trade Organization", Journal of World Trade, Vol. 39. No.1. February 2005.

Sen defines development as "the removal of unfreedom:..."². Development in the view of Sen is the process of expanding human freedoms. Thus, for Sen, Development is understood as the process of removing unfreedoms.

We have identified four types of unfreedoms or deprivations, in Sen's work, that are relevant to our discussion of development and the multilateral trading system. Firstly, Sen argues that deprivations can result when people are denied economic opportunities. Secondly, Sen argues that poverty should be understood not so much as low incomes but as a deprivation of basic capabilities. Thirdly, whilst Sen argues for government regulation to enable markets to work more effectively, he states that a system of ethics, based on social justice is required to build vision and trust for the successful use of the market mechanism. Fourthly, Sen argues that the deprivation of the opportunity to participate in crucial decisions regarding public affairs, is to deny people the right to develop.

Therefore, in the ongoing Doha Round, how should we translate this perspective? Firstly, it does mean that to provide developing countries with opportunities to export in global markets, we have to tilt the balance towards a level playing field and, in line with the promise of the Doha Mandate for a development Round, somewhat in favour of developing countries this time. In Agriculture, we have to remove the distortions caused by subsidies in Developed countries that prevent and undermine developing countries from pursuing their comparative advantage. Secondly, we all have the responsibility to ensure that the poorest countries are provided with the capacity to produce, and export thus allowing them too to benefit from the opportunities in the global economy. Thirdly, the rules of the trading system also need to be balanced, whilst strengthening a rules based system for all to benefit, it should provide sufficient flexibilities to prevent developing countries from bearing the cost of these rules, without the benefits. Fourthly, the participation of developing countries in the process is crucial to ensure that they are engaged in negotiating the new rules in a fair and democratic manner.

Are Developing Countries reluctant participants in the DDA negotiations?

At the launch of Doha Developing Countries succeeded in negotiating a mandate that has the promise of delivering a development outcome. They did this through a high level of participation in the negotiations. Since Doha developing countries have formed powerful coalitions in the G20, G33, NAMA 11, LDC Group, Small Economies, Africa Group and ACP Groups. They have stuck together notwithstanding their divergent interests as we observed in Hong Kong and now again at the WTO June Ministerial Meeting (in the G110) held in Geneva and the G20 Ministerial Meeting held in Rio, in September 2006.

The current impasse in the WTO is a reflection of the strength of developing countries, not their indifference. Developing countries are a force to be reckoned with. They can negotiate. They are technically competent. They are organized. Whilst they are and have been many threats of an unfair deal being imposed on developing countries, this threat should not cause them to renounce their legitimate claims to a fair and balanced outcome in the Doha Round. They have insisted that the promise that the Doha Round will be a development round should be fulfilled.

Developing Countries are taking responsibility and providing leadership in the Doha Round. The G20 – itself a complex set of countries including, Brazil, India, Egypt, Paraguay and Tanzania – has negotiated and put forward a set of proposals on almost every issue in the Agriculture Negotiations. The G20 has thus become the centre of gravity in the Doha Negotiations. Both the EU and the US now acknowledge (the latter more reluctantly) that they have to move towards the G20 to achieve a final deal in the DDA.

² See Amartya Sen, *Development as Freedom* 1999, p. 3.

There are three further misconceptions:

Does Aid belong to the WTO?

There are many provisions on technical assistance and capacity building in the GATT.

Paragraph 2 of the Doha Declaration states that: "...well targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play."

The July 2004 WTO General Council Decision on modalities for trade facilitation also commits members to provide "support and assistance for developing countries" to "implement the commitments resulting from the negotiations" and has linked this to their implementation obligations.³

The Hong Kong Ministerial Conference called for an enhanced Integrated Framework to be launched by 31st December 2006. You will recall that the IF which a programme of technical assistance targeted to build the trade capacity of LDCs was agreed at the first WTO Conference held in Singapore in 1996 and is managed by 6 agencies, including the World Bank, IMF, UNCTAD, UNDP, ITC and the WTO. The Task Force mandated with this responsibility reported to the GC in July 2006 and stated that the current level of funding of approximately 35 million dollars was inadequate and proposed that the IF should mobilize around 400 million dollars over 5 years through the multilateral trust fund and bilateral cooperation.

The Hong Kong Ministerial Declaration⁴ recognized the importance of "Aid for Trade" and called on the Director General of the WTO to a) create a Task Force that "shall provide recommendations on how to operationalize Aid for Trade, and b) to consult with members as well as the IMF and World Bank and other relevant international organizations "with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade". This Task Force⁵ submitted its recommendations to the General Council at the end of July 2006.⁶

At the Hong Kong Ministerial Conference in December 2005, there were three Special and Differential Treatment, LDC Agreement Specific proposals that were agreed to in Annex F which are of relevance to the "Aid for Trade" agenda.

Whilst the language of these proposals is not binding and obligatory, the agreements do provide LDCs with some leverage in their efforts to secure greater "Aid for Trade" and to negotiate greater coherence of their obligations and commitments in the WTO and the conditionalities imposed by the Bretton Woods Institutions.

So, Aid is very much a part of the WTO and I have argued an essential component of the development dimension of the WTO.⁷

Do Developing countries want to make the WTO a development institution?

No! Developing Countries do not want to make the WTO a delivery mechanism for Aid but do want to utilize the WTO a) as a point of leverage to increase Aid 4 Trade; b) to build coherence between WTO and the Aid Agencies and; c) to build transparency and mutual accountability.

3 See Paragraph 2 of Annex D. WTO WT/L/579. (2nd August 2004).

4 See WT/MIN (05)/DEC Para 57 of the "Ministerial Declaration". Doha Work Programme. 22 December 2005

5 The task force is composed of 13 members -- Barbados, Brazil, Canada, China, Colombia, the EU, Japan, India, Thailand, the US and the coordinators of the ACP (African, Caribbean and Pacific) Group of States, the African Group and the LDC (least-developed countries) Group.

6 See WTO doc. WTO doc. WT/AFT/1, Recommendations of the Task Force on Aid For Trade, 27th July 2006.

7 See Ismail, F. 2007. "Aid for Trade. An essential component of the multilateral trading system and WTO Doha development agenda", World Economics, Vol. 8, No.1, January-March 2007.

Is Aid being used as a substitute for trade solutions (to buy off developing countries)?

Aid 4 Trade is not part of the single undertaking. Both developed and developing countries agree. For example, developing countries refused to accept Aid as a solution for a) preference erosion or b) for the cotton initiative.

Thus Aid 4 Trade is not a substitute but an important complement to the Trade solutions for these developing countries in the DDA.

Conclusion

Thus I have argued that the Development dimension in the WTO cannot be relegated to the provisions in the GATT/WTO on S&D but should go to the heart of the trading system itself; fair market access, capacity to trade for the poorest members, balanced rules and effective participation of developing countries in the multilateral trading system.

With regard to Capacity Building there are two important reasons why AFT, that is additional to existing pledges on ODA, should remain an essential component of the Multilateral trading system and should be an essential component of a successful Doha Round!

First, the history of European economic development provides some valuable insights. The Post War Marshall Plan was partly instigated to “neutralize the forces moving Western Europe permanently away from multilateral trade”.⁸ In addition, European Integration itself was facilitated by economic assistance provided to weaker countries and regions (through the structural and cohesion funds).⁹

Secondly, a number of studies¹⁰ undertaken recently have pointed out that whilst an ambitious outcome of the DDA promises significant gains for both developed and developing countries, the poorest countries, including the LDCs and other small, weak and vulnerable economies will make less gains and could even make significant losses from the Round. There are a number of reasons for this result, including significant preference erosion for some countries and the lack of supply capacity to take advantage of new opportunities in global markets. These countries will need to be provided with assistance to manage these adjustments. This support can be regarded as a compact or “Grand Bargain” that is required to ensure a successful conclusion of the Doha Round.

⁸ Foreman-Peck, A History of the World Economy (1983) (Wheatsheaf Books).

⁹ Tsoukalis, Loukas, What Kind of Europe (2003) (Oxford University Press).

¹⁰ Anderson, K., W. Martin and D. van Mensbrugghe “Would Multilateral Trade Reform Benefit Sub-Saharan Africans?” April 2005 (World Bank. Washington, DC).