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What Future for the Multilateral Trading System? – Development Perspectives from Asia

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Background: The multilateral trading system is at its upcoming 60th anniversary under continuous pressure for further reform in favour of the interests of developing countries. Some of the imbalances that persist in the international trading order do require corrections. The Director-General of the World Trade Organization (WTO), Pascal Lamy, stated in a speech before the European Parliament in October 2006: “It is as if economic decolonization had had to wait 50 years after political decolonization”. In the agricultural sector, for instance, industrialized countries spend huge amounts of trade-distorting domestic support and export subsidies that undermine the comparative advantages of developing countries in agricultural products. In the industrial sector, developed – and developing countries – shield their most sensitive products by high tariffs, tariff escalation and peak tariffs. Moreover, non-tariff barriers to trade such as restrictive rules of origin hinder the access to major export markets. This discourages developing countries from investing in higher value-added production and benefiting from both higher wages and profits.

The Doha “Development” Round was initiated in 2001 in order to correct some of these imbalances, to integrate developing countries better into the multilateral trading system and to help them reap the benefits of increased market access opportunities. The current round of multilateral trade negotiations is the first one, in which developing countries are actively involved and fight strongly for their offensive and defensive interests. However, the negotiations have not advanced substantially and a number of missed deadlines have led to a creeping erosion of confidence in a successful outcome, seriously jeopardizing a pro-development outcome. After having been stalled in July 2006, negotiations were resumed in February 2007 even though the positions of key actors had not changed yet. WTO members are pushing hard to reach a breakthrough before the end of June 2007, since the expiry of the Trade Promotion Authority and the general political climate in the United States (US) will make consensus even more difficult.

As a result of the protracted and seemingly deadlocked negotiations, the multilateral trading system and the WTO itself face a tremendous challenge in overcoming the growing skepticism and lack of confidence in the chances of a successful conclusion of the Doha Round. Tendencies are emerging to engage more intensively in bilateral and regional trade negotiations, in which smaller developing countries have less bargaining power. These trends raise the question on how development objectives via trade can best be accomplished and in what way the effect of trade on broader issues such as employment, labour rights or environment require greater consideration in trade negotiations and agreements.

It was against this background that the Friedrich-Ebert-Stiftung (FES) and the Secretariat of the World Trade Organization jointly organized a regional dialogue* with different stakeholders from Asia to exchange views on the future of the multilateral trading system. This dialogue aimed at discussing the current state of play of the Doha Round negotiations, the challenges for Asia in this respect and the role and involvement of the different stakeholders in the trade negotiation process. It brought together 50 participants from 12 Asian countries and diverse backgrounds, including representatives from government, international organizations, business, non-governmental organizations (NGOs), trade unions, academia and the media.

*The [program](#) and [list of participants](#) are available at www.fes-geneva.org

1. The Doha Development Round: State of play, expectations and bilateral and regional alternatives

The Doha Round is the most challenging round of multilateral trade negotiations ever launched. It is broader in scope (including most controversial areas such as agriculture), deeper (a higher level of ambition in the commitments) and wider (with 150 WTO member countries involved). This complexity of issues, actors and processes has brought the round to a difficult stage, where the

failure of negotiations has become one option. This is in particular problematic, since the reform of the multilateral trading system is more urgent than ever before in order to meet the needs of all WTO members adequately and thereby restore its tarnished legitimacy.

The Doha Agenda tackles the most pressing issues and holds the potential for new market access possibilities for some developing countries. However, it was also referred to studies, which forecast meager gains or even losses for most

Least Developed Countries (LDCs) under the current scenarios.¹ Thus, participants from smaller developing countries raised the question whether they were really to lose if the Doha Round was going to fail. While a world without the regulatory framework of the WTO would be characterized by chaos and the “rules of the strongest”, a WTO without a Doha Round Agreement would imply a serious shock and crises of legitimacy for the multilateral trading system. This cannot be in the interest of any member state and fewest in the interest of the smaller developing countries. However, to trigger gains for the majority of developing countries, improved access to developed countries’ markets and adequate flexibilities are necessary. It was warned that a level playing field would not be enough since “equal rules for unequal partners lead to more suffering by the weak and vulnerable”. Moreover, it is hard for enterprises from developing countries to compete with multinational enterprises and their monopoly power.

The Aid for Trade (Aft) initiative was started in 2005 at the Hong Kong Ministerial Conference as a complement to the Doha Agenda. The rationale is that developing countries can only profit from better market access opportunities if they have enough exportable goods. Currently, many poor developing countries are confronted with supply side constraints, infrastructural bottlenecks and a low level of export diversification. The Aft initiative seeks to mitigate these constraints, to integrate developing countries better into multilateral trading system and to assist them in coping with the adjustment costs of trade liberalization. While the WTO is not a development agency and does not seek to become one, its main role will be to monitor the global Aft flows and advocate for an increase of trade assistance by additional resources. Civil society actors criticized the initiative as a “carrot and stick” method to get developing countries sign a deal against their interests. Nevertheless, it could have the potential to make trade work better for development if it was implemented effectively.

There was skepticism about whether the Doha Round could be concluded by the end of the year 2007. Although there has been some progress in areas such as trade facilitation or the

adoption of the draft decision on a Transparency Mechanism for Regional Trade Agreements (RTAs), the main negotiation areas, i.e. agriculture, Non-Agricultural Market Access (NAMA) and services are still deadlocked. Moreover, one of the main principles of the Doha Agenda is the “single undertaking”, which means that “nothing is agreed until everything is agreed”. An informal deadline is the end of July, when modalities in the areas of agriculture and NAMA should be agreed upon. However, the necessary leadership and political willingness to compromise has been lacking among the main actors. Due to the upcoming election campaign, the US is not very keen on concluding the round if this implies unpopular commitments to reduce agricultural domestic support and export subsidies without being granted “new market access” to developing countries’ markets. The EU seems to be more willing in concluding the round, but also faces difficulties in increasing its offers in agriculture mainly due to the protectionist position of France. The emerging developing countries India and Brazil are expected to wait until exactly these commitments are made before offering more concessions themselves in a round, which developing countries are supposed to benefit most from. Meanwhile, the number of cases brought before the Dispute Settlement Mechanism (DSM) has been increasing and this trend of legal trade conflicts is expected to continue.

Another threat to the multilateral trading system is the tendency to increasingly engage in bilateral and regional trade agreements. A lot of Asian countries are involved in such negotiations, among them countries such as China or Japan that were hitherto reluctant to negotiate Preferential Trade Agreements (PTAs). Although there was a strong support for multilateralism, participants also recognized that PTAs became a reality and were there to stay. Thus, ways should be discussed how they could complement rather than undermine the multilateral trading system. WTO rules allow the conclusion of PTAs in principle if they fulfill certain conditions that are specified in Art. 24 of the General Agreement on Tariffs and Trade (GATT), Art. 5 of the General Agreement on Trade in Services (GATS) and the “Enabling Clause”. However, these provisions are not very practical and many PTAs in force are actually considered inconsistent with these rules. The potential risks of PTAs are that they divert and complicate trade by a “spaghetti bowl” of overlapping agreements with different rules of origin. Moreover, there are a growing number of PTAs between developed and developing coun-

¹ See for example Sandra Polaski: *Winners and Losers. Impact of the Doha Round on Developing Countries*. Carnegie Endowment for International Peace, Washington 2006.

tries, which often contain more issues and stricter conditions than under WTO agreements (“WTO Plus”). Since PTAs include reduction commitments on applied tariffs, the impacts in the form of tariff revenue losses are often immediate. Developing countries have typically less bargaining power in the negotiations of PTAs and give away voluntarily much more policy space than under WTO agreements. Therefore, it was warned that developing countries should consider carefully the costs and benefits before signing PTAs. Trade liberalization under PTAs offers new export opportunities through preferential access to major markets, such as the US or EU. However, these preferences have been eroded rapidly by extending them to competing states. For small developing countries, such as Bangladesh, Laos or Nepal, which are typically not on the priority list of the EU or US, regional trade agreements might become more relevant.

2. The Doha Round negotiations – what’s in it for development?

There has been a shift in the trade and development paradigm over time. After the failure of the “Washington Consensus” it became obvious that trade liberalization is not an end in itself but has to be sequenced carefully to serve as a tool for development. Moreover, important factors to tackle the development challenge are the conditions at national level, characterized by a comprehensive and coherent national development strategy combined with a high level of ownership. The multilateral trading system needs to be conducive and flexible enough to allow developing countries to pursue their national strategies. It became clear that any “one-size-fits-all” approach is condemned to fail since each country needs to find its own development strategy that takes into account the country’s economic level and other characteristics. Moreover, it was cautioned that development was always a long-term process and the gap between developed and developing countries could only be bridged by a long jump.

Indeed, many Asian countries have used trade successfully as a tool for development, such as the “East Asian tigers” for example or recently China and India. However, developing countries are a very heterogeneous group with different characteristics and needs. This is illustrated by the fact that Asian countries are part of negotiating groups with contrasting interests. While Indonesia, Malaysia and the Philippines, for in-

stance, are members of the offensive Cairns Group, Japan and South Korea are opposing heavily further liberalization in the agricultural sector. LDCs, such as Laos or Bangladesh have an interest in being granted duty- and quota-free market access for their products to developed countries, as well as to emerging powers in their neighborhood.

It was highlighted that there is a global responsibility to make the multilateral trading system fairer and more development-friendly. The Millennium Development Goal number 8 refers to this by including trade, aid and finances targets. Moreover, the Preamble of the WTO itself states the objectives of “raising standards of living”, “ensuring full employment” and “sustainable development”. But for many Asian countries it is still a long way towards the fulfillment of these aims.

2.1 Agriculture

The agricultural sector is at the heart of the economy of many Asian countries due to its importance for employment, export revenues and rural development in general. Global agricultural markets are still highly distorted and the access to developed countries’ markets is hindered by tariff escalation and demanding standard requirements. International agricultural trade is governed by the WTO Agreement on Agriculture, which was signed as part of the Uruguay Round Agreements in 1994. It regulates the areas of market access, domestic support and export subsidies, but contains a lot of loopholes. Since the launch of the Doha Round, there has been progress in all three areas. There is e.g. the commitment to totally eliminate export subsidies by 2013, to reduce the legally allowed level of domestic support and to increase market access by a formula that tries to “harmonize” tariffs, i.e. that cuts higher tariffs deeper than lower ones. Moreover, it has been negotiated to provide for three kinds of flexibilities that seek to secure policy space, which are “sensitive products” (for all members), “special products” (for developing countries) and the “special safeguard mechanism” (for developing countries). These flexibilities would allow the respective countries to shield some products from the full force of the formula cuts and to protect their markets temporarily against import surges that jeopardize food security, livelihood security or rural development. It is clear that the level of ambition of developed countries should be higher than the one required from developing countries. But it was also cautioned that developed countries

tried to limit these flexibilities for developing countries, while demanding the continuation of their “flexibilities” in the form of high agricultural subsidies at the same time. Moreover, there might be the danger of “box-shifting”, which means that subsidies are just being reclassified and shifted from the “amber box” (trade-distorting subsidies) to the “green box” (supposedly non-trade-distorting subsidies). It was also mentioned that the internal agricultural reform of the EU (Common Agricultural Policy – CAP) had been underway and would be implemented anyway. This reform is more comprehensive and ambitious than the current proposal of the EU at the WTO and should give the EU the flexibility to improve its offers.

In many developing countries, the majority of the working population is employed in agriculture (compared to less than 5 per cent in most developed countries), which explains the sensitivity of this sector. The adjustment costs of the liberalization of agricultural markets have been already high in many Asian countries, where it is difficult for poor rice farmers for example to find alternative employment opportunities. Therefore, some participants cautioned that developing countries should shield their agricultural markets at least until developed countries eliminate their domestic support and export subsidies to avoid increased unfair competition. Thus, the Indian government, for instance, pursues a very defensive position in agriculture, arguing that the livelihoods of its large share of poor subsistence farmers are at risk.

The example of Vietnam highlighted the specific case of a Recently Acceded Member (RAM) to the WTO. One of the main objectives of the country’s WTO accession was to get improved and reliable access to the world (agricultural) markets. Vietnam still faces high growth rates in the agricultural sector, which makes up for around 20 per cent of its Gross Domestic Product (GDP) and around 70 per cent of employment. Nevertheless, the sector is characterized by an overall low competitiveness due to deficiencies in processing. The future challenge is to invest more in high-tech agro-industry, diversify the agricultural sector and create more and better employment opportunities by increasing value-added production. In this context, bottlenecks are the low level of private sector investment, whose potential has still to be explored, and the bias against rural areas. Moreover, enterprises need to be better informed and adapt their practices to the new WTO regulations.

A huge challenge for developing countries remains the compliance with the standards and norms that are required when exporting to developed countries. The minimum level of standards is specified in the WTO Agreements on Application of Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). To fulfill these standards, much more investment is needed to modernize production processes and to set up reliable testing institutes.

The negotiations on agriculture are the litmus test for the negotiations on reforming the multilateral trading system, because it is the area of greatest concern for the majority of developing countries. A development-friendly outcome in this area could increase the credibility of the WTO significantly. One representative, however, was demanding that agriculture should be dealt with outside of WTO, since there would never be a consensus. Others referred to the findings of the Polaski report that prognosticates no (or only meager) gains for the majority of developing countries in agriculture. Moreover, it was cautioned that developing countries could not wait until 2013 to have agricultural subsidies being reduced.

So, what can the WTO do to fix agricultural trade? The following four suggestions were put forward by the participants: First, WTO rules that aim at prohibiting agricultural dumping (sales below production costs) should be strengthened. Second, enough policy space should be retained for developing countries without harming the interests of other developing countries. Third, new and more objective criteria for subsidies should be agreed upon to prevent “box-shifting” and to prohibit any trade-distorting subsidies. Fourth, ways should be found to control the power of Transnational Corporations (TNCs) and to avoid market concentration. A first step could be the establishment of a transparency mechanism, such as the one for state trading enterprises for example.

2.2 Non-Agricultural Market Access (NAMA)

At the centre of the negotiations on Non-Agricultural Market Access (NAMA) is the liberalization of tariffs. This is handled by the so-called “Swiss formula”, which aims at “harmonizing” tariffs, i.e. to cut higher tariffs deeper than lower ones. There will be probably two different coefficients for developed and developing countries, which indicate the different levels of ambition. The idea of the Swiss formula approach is that tariff peaks and tariff escalation in

developed – but also some developing – countries will in principle come to an end. This also implies that the possibilities for developing countries to shield their sensitive industries will be reduced. To mitigate this loss of policy space, developing countries are negotiating for different types of flexibilities, which should reflect the hierarchy of contributions among the group of developing countries. According to current proposals, all developing countries would be allowed to exempt 5 per cent of their tariff lines from tariff cuts or to apply lower formula cuts for 10 per cent of their products. Certain groupings, such as the Small and Vulnerable Economies (SVEs) or the Recently Acceded Members (RAMs) are negotiating for further flexibilities. The latter grouping includes countries at very different levels of development, such as Cambodia, Nepal but also China, which makes a further differentiation in this group necessary.

There are three major conflicts in the NAMA talks: First, the interpretation of the “less than full reciprocity” principle is discussed controversially. Developing countries claim that they should not be required to undertake steeper percentage cuts in their bound tariffs than developed countries. The latter, however, argue that a higher coefficient in the formula will already allow developing countries higher final maximum tariffs in the future. Second, in particular the US and EU are calling for “new trade flows” in NAMA. Developing countries, however, are rejecting this claim vehemently, indicating that the Doha mandate does not mention new trade flows for developed but developing countries. Third, the objective of paragraph 24 of the Hong Kong Ministerial Declaration, which calls for a similar level of ambition between the areas of agriculture and NAMA, is difficult to fulfill in general. According to current proposals, the ambition in percentage tariff cuts would be much higher in NAMA than in agriculture.

The negotiations on NAMA are crucial for the development prospects of Asian countries, since many of them count on a significant industrial sector, which provides for a substantial share of employment. Thus, India, Indonesia and the Philippines are all members of the NAMA-11 grouping, which is negotiating eagerly for a high coefficient and lower reduction commitments as well as additional flexibilities. On the other hand, China and some other Asian countries are expected to benefit from further trade liberalization in NAMA since they have enough capacity to boost their export volumes. While the exact

country-specific outcomes are uncertain, trade liberalization will increase competition and the pressure to improve productivity and to lower manufacturing costs in all countries.

Trade unionists raised concerns about the impacts of the Swiss formula, since it cut tariffs on a line-by-line basis up to a certain level instead of allowing countries to reduce tariffs on average as was the case in the Uruguay Round. The pretty low coefficients on the table would have detrimental effects on a number of developing countries. Moreover, there is a lack of impact assessments in general and employment impact assessments in particular. It was raised the fear that possible job losses in formal employment especially in the clothing, footwear and furniture sectors could only be replaced by informal employment opportunities characterized by lower quality (“indecent” work). In this context, it was again referred to the findings of the Polaski report, which suggested as a result of the Doha Round losses in labour-intensive sectors and gains in capital-intensive sectors. This would aggravate the employment situation in many developing countries. Some Asian countries would face tariff revenue losses if commitments led to cuts in applied rates. Another problem in the NAMA negotiations is that the agreed maximum tariffs as well as the flexibilities will be very difficult to change over time. In order to use flexibilities effectively, countries would need to identify sectors, on which they want to build upon in the future and protect them by slightly higher tariffs. This needs a lot of technical capacity and foresight, which is often insufficiently available (not only) in developing countries.

The example of the garment sector was mentioned as an area that was still protected by high tariff walls. The employment situation is characterized by a high share (often more than 70 per cent) of unskilled women workers, low wages and poor working conditions. Moreover, the pressure on these jobs has increased and led to further marginalization, notably in Bangladesh and Sri Lanka. While many of the countries in the region that compete with China still profit from the safeguards that major economies, such as the EU and US imposed on certain Chinese products, these regulations will expire by the end of 2008. Thus, neighboring countries need to identify niche markets and improve the competitiveness of their export industries to persist in the future. Taking into account the growing power of TNCs and the increasing importance of global production networks, enterprises in de-

veloping countries also need to link to these international networks in order to catch up technologically. Vietnam is one of the countries that successfully started such a process. In the long term, the establishment of own trade marks could add value to the production and has a lot of potential to explore. While Corporate Social Responsibility (CSR) measures are already applied by many TNCs, the challenge is to implement and monitor these measures effectively along the whole supply chain.

What would be the preconditions for a development friendly NAMA outcome? First, trade unions mentioned that a sufficiently high coefficient, an Uruguay Round formula approach with average reductions, and an increased level of flexibilities with the option to change them over time would be necessary. This is crucial since industrial development is a dynamic process and many traditional instruments of industrial policy are already restricted by WTO agreements. Second, it was also mentioned that high tariffs were necessary in certain sectors to allow governments to pursue an active industrial policy and guarantee a certain level of tariff revenues. Third, mechanisms and programs should be established that effectively deal with adjustment costs, i.e. to put in place social safety nets and to provide for retraining programs for displaced workers among others.

2.3 Services

The service sector is the fastest growing sector and makes up for more than 60 per cent of GDP in many developing countries. Transportation, financial and telecommunication services exert a multiplier effect on the rest of the economy. Services determine significantly the international competitiveness of products due to their importance in the production and distribution process. The adoption of the WTO General Agreement on Trade in Services (GATS) was a milestone in the Uruguay Round in 1994. It provides the multilateral framework of principles and rules for international trade in services. It is comprehensive in scope and differentiates between four modes of supply: Mode 1 (“cross-border supply”), Mode 2 (“consumption abroad”), Mode 3 (“commercial presence”), and Mode 4 (“presence of natural persons”). However, since 1995 liberalization has not proceeded much further except from the financial and telecommunication sectors. This slow progress and low level of ambition in terms of quality and depth of commitments is mainly due to the specific nature of the negotiations in this area, which are domi-

nated by a process of “request-and-offer”. In contrast to the talks in goods, which mainly focus on tariff reductions, the negotiations on services deal with specific commitments that countries want to offer in market access. The much debated Annex C of the Hong Kong Ministerial Declaration set the parameters and improved the regulatory framework. However, the services negotiations remain the least transparent since most countries have a defensive position and are reluctant to reveal both their offers and requests, which usually do not match with each other. While information on requests is quite limited due to the danger that other demanders might jump on, the offers are slightly more transparent. The chair of the services negotiations, Ambassador Fernando de Mateo, allegedly characterized the status before the suspension of the negotiations in July 2006, which impeded the presentation of revised schedules in services, with the words: “There are few if any commercial opportunities on the table.”

Competitive service providers such as the EU, US, but increasingly also India, claim that trade liberalization in services should not lack behind the ambition in other negotiation areas. However, the services negotiations face in particular three problems: First, their result will greatly depend on the outcomes in the areas of agriculture and NAMA, which remain deadlocked. Second, the technical work in the area of services is much more complicated. The dispute settlement case on internet gambling against the US has illustrated that the devil is in the details. Since even the US scheduled its commitments against its declared interests, developing countries have much more difficulty in scheduling their concessions correctly given their technical capacity constraints. Third, Mode 4 is the compromise area, which is very relevant for developing countries. However, it is also the most sensitive topic since it is considered by most countries as security issue and faces a lot of internal political resistance.

Mode 4 is the least liberalized sector under GATS, mainly due to the fear of important receiving countries that temporary migration becomes permanent. While under Mode 4, market access conditions for only high qualified service providers are regulated, many developing countries are confronted with a surplus of mainly unqualified labour. Nevertheless, in some developing countries, the problem of “brain drain” has been identified as an obstacle to development and solutions are looked for to reverse this trend into “brain gain” and “brain circulation”. The

example of the Philippines illustrated the situation in the health sector, where Philippine doctors retrained as nurses (“de-skilling”) and emigrated to substantially increase their income.

The negotiators of the main destination regions, the EU and US, do not have a mandate to offer concessions in Mode 4, since the competence lies within the US Congress and the single EU member states. Moreover, developed countries do not want to commit themselves in areas that go beyond the service provision of high-qualified workers. Even if concessions were made in Mode 4, the respective countries could apply restrictive visa requirements and thereby undermine the real value of such concession.

The case of India is interesting in the sense that it has both a strong offensive and defensive position. On the one hand, it became one of the strongest demandeurs for Mode 1 and Mode 4, requiring developed countries to open up. It seeks to improve the market access for its highly-skilled IT professionals, for instance, by calling for a higher quota of H1B visa to the US. On the other hand, India is also very protectionist against demands from neighboring countries, notably Bangladesh, Pakistan or Sri Lanka, concerning market access for low-skilled workers.

The example of Sri Lanka illustrated the growing significance of the service sector in terms of share of GDP (more than 55 per cent) and employment (more than 40 per cent). The importance of migrant workers abroad and their remittances sent back to Sri Lanka has increased substantially and roughly doubled the inflows of official development assistance. It was highlighted that Sri Lanka had become a comparatively open economy concerning services due to unilateral liberalization with the exception of Mode 3, which was of predominant interest for foreign investors of developed countries.

What would be the preconditions for a development friendly services outcome? First, services liberalization is closely related to the regulatory capacity of countries. Before opening up, countries should have in place the adequate regulatory framework in order to benefit from liberalization. This requires strong domestic institutions, which are often lacking in developing countries. The US claimed in the dispute settlement case on online gambling that it should have the right to reverse market access concessions that were scheduled erroneously. This point of guaranteeing national sovereignty, in particular in the con-

text of consumer protection, was supported by participants. Second, it was mentioned that public services should not be liberalized before knowing the consequences given their relevance for guaranteeing human rights. This reflects the need for social impact assessment studies of trade reforms. Third, telecommunication was mentioned as good example for improving the geographical coverage (including rural areas), quality and cost structure. Moreover, improved efficiency of customs clearance and other forms of trade facilitation could improve the international competitiveness of products and increase trade flows, i.e. to exert a multiplier effect on the other sectors of an economy.

3. Decision-making process in trade negotiations – actors’ perspectives

The outcome of trade negotiations is considerably influenced by the decision-making process both at national and multilateral levels. While governments are the main actors in trade negotiations, parliamentarians and civil society organizations have constantly claimed that such processes should be transparent and inclusive in order to be democratic. Each stakeholder, who has a legitimate interest in being engaged in trade policy formulation, should have the possibility to do so. This becomes even more important since trade measures increasingly influence “behind the border” policies, such as employment, investment or human rights.

Trade policy starts at home. Thus, at the national level, governments face a twofold challenge: First, they need to coordinate their country’s trade policy between the respective ministries, such as the Ministry of Industry and Trade, Agriculture, Finance etc., which usually have diverse and vested interests that they promote out of different power positions. Second, governments should consult all relevant stakeholders in the trade policy formulation process in an inclusive and transparent manner. In practice, trade policy is strongly influenced by business interests. While some governments refer to time pressure and lack of resources, which would not allow for a broad consultation process with stakeholders, all WTO members committed themselves in the Agreement on the Trade Policy Review Mechanism (TPRM) “to encourage and promote greater transparency within their own systems”².

² Uruguay Round Agreement, Annex 3 (Trade Policy Review Mechanism), 15 April 1994.

Moreover, governments have a much better standing in trade negotiations when their positions are supported by a variety of domestic interest and pressure groups.

The trade policy formulation process differs widely between countries. In many cases, the tendency to involve various stakeholders in the preparatory phase of a WTO Ministerial Conference triggered substantial changes in the domestic decision-making and consultation process.

The example of the Philippines illustrated one promising form of consultation process.³ During the preparations for the WTO Ministerial Conference in Seattle in 1999, the Philippine government established the Task Force on WTO Agreement on Agriculture (Re)negotiations (TF-WAR). This multi-sectoral group included representatives from government, farmer groups, industrial enterprises and NGOs. Its main objective was to analyze, advise and propose a consolidated Philippine negotiating position for the new round of multilateral trade talks. This was a valuable step given that all relevant stakeholders were consulted. At the beginning, all members had to prepare themselves, had to find a common language to understand each other and had to translate the results of the discussions into the legal language of agreements. After the launch of the Doha Round in 2001, the structure of the TF-WAR was reformed and participation was restricted to the most concerned actors, which were invited to really be part of the negotiation process. Moreover, it was complemented by a TF-WAR core group to improve the technical policy work. The core group is on stand-by and is available for real-time consultation. The Ministers of Trade and Agriculture built alliance right after the Doha Ministerial Conference with the will to include all stakeholders in the subsequent negotiations. It was mentioned that the close coordination with legislators was also crucial, since they finally had to approve and translate multilateral agreements into national laws.

At the multilateral level, the WTO has the obligation to guarantee a transparent and inclusive negotiation process. This is the precondition for a meaningful participation of all concerned WTO

members. A first step is the provision of timely and readily available information. In this context, the WTO has improved much in the last few years by putting promptly most of its official documents at the WTO website. However, it was criticized that the WTO suffered in its present mode a “deep democratic deficit” or was applying “selective democracy”. On the other hand, it was stated that the WTO could only be as democratic as its member states agreed on, which had quite different understandings of democracy. Indeed, the question of what conditions should be fulfilled to have a democratic and still functioning decision-making process in the WTO and other multilateral organizations needs further exploration.

The decision-making process at the WTO is characterized by the following principles and procedures: Although the possibility of voting on the basis of “one country, one vote” exists, all major decisions are normally taken in formal meetings by consensus by the membership as a whole. In practice, however, the bargaining power of countries is clearly unequal depending on their economic size and political leverage. It was recalled that small countries in particular were exposed to different types of pressure in WTO negotiations.

In the current Doha Round negotiations, the main actor is formally the WTO Director-General in his function as chair of the Trade Negotiating Committee. Together with the chairs of the sectoral negotiating groups, he has to guarantee the integrity, transparency and inclusiveness of the process. Informal meetings, such as the “green room meetings” (among the representatives of around 30 key members) were considered necessary to facilitate consensus on sensitive issues. For a negotiator it would be very difficult to change or give up officially his/her position. The challenge is to include all interested stakeholders even in such informal meetings and to strike the right balance between informal and formal meetings in the overall negotiations. This has been tried to guarantee by including the coordinators of all negotiating coalitions, such as the G-20, G-33, LDC group, NAMA-11 etc. They have then the responsibility to represent the interests and concerns of their constituencies and report back to them.

Developing countries have not been actively engaged in multilateral trade negotiations until the Uruguay Round. Even then, they did not really influence the final decision, which was mainly

³ See also Donah Sharon Baracol: Philippines: Stakeholder Participation in Agricultural Policy Formation, Case Study 36, in: Peter Gallagher/Patrick Low/Andrew L. Stoler (ed.): *Managing the Challenges of WTO Participation – 45 Case Studies*, WTO 2005.

based on an agreement between the US and EU (“Blair House Agreement”). That situation has changed radically now by the emergence of new developing countries’ negotiation coalitions. Developing countries have realized that they need to build such coalitions in order to influence the negotiations meaningfully. Groupings can be based upon regional affiliation (e.g. The African Group), UN classification (e.g. LDC Group), common characteristics (e.g. SVE group) or common interests (G-20, G-33, NAMA-11). They can have offensive interests, such as the G-20, or defensive interests, such as the G-33. Some developing countries belong to different groupings, which even contradict each other in their positions. Many of these groupings emerged around the WTO Ministerial Conference in Cancún in 2003 and achieved to persist despite of various attacks from outside and differing interests inside the groupings.

Most striking has been the transition of the notorious “Quad” (US, EU, Japan and Canada) to the G-4 (US, EU, Brazil and India). Remarkably, it was questioned whether Brazil and India were really representing the interests of developing countries in this group or rather speaking on behalf of their own constituencies. In this context, China’s role is still to be unveiled. It is member of the G-20 and a strong supporter of the G-33. However, it was observed that China was not speaking on behalf of developing countries, but supporting its own interests. It remains to be seen when and how China will use its economic power in WTO negotiations more actively.

4. Looking beyond mere trade agreements – the impact of trade on employment and labour rights

Trade does not take place in a vacuum. It also has significant repercussions on “non-trade” or “behind the border” issues, such as health, environment, employment or human and labour rights. This poses challenges on policy coherence at both national and multilateral levels. While it was recognized that the WTO was a business-oriented organization rather than a “social club”, it was claimed as well that the WTO had also the responsibility to take into account the interests of the poor. The Preamble of the WTO, for instance, contains the objectives of “raising standards of living” and “ensuring full employment”.

Some WTO agreements already include an explicit reference to other international agree-

ments and norms, as is the case in the Standards and Phytosanitary Measures (SPS) Agreement for example. However, the relationship between trade agreements and social standards as well as the institutional relationship between the WTO and ILO remains highly sensitive. Member states of both organizations have constantly reiterated their position as expressed in the Singapore Ministerial Declaration in 1996: “We reject the use of labour standards for protectionist purposes [...]”⁴ Nevertheless, a significant and symbolic step was made on working level by the launch of the first jointly conducted ILO/WTO study on trade and employment.⁵ The findings of the study are neither precisely new nor do they contain policy recommendations. However, it is a remarkable fact that both organizations underwrote the message that trade liberalization is not always good per se, but has to be seen in a differentiated manner and in the national context.

The main results of the study are the following ones: First, trade liberalization leads to the restructuring of economic activity and employment reshuffling across but also within sectors, which means that trade both destroys and creates jobs in all trade-related sectors. While reallocation of workers is usually easier within than across sectors, it becomes more difficult to predict which jobs are at risk. Second, the impact of trade on the income level is still unclear, although average wages are likely to rise. Since trade in general increases competition among workers, it leads to a downward pressure on the lower skilled workers and a possible loss in their bargaining power. Third, education policies are crucial and a comprehensive approach is needed. Insurance and social protection schemes should be in place and work efficiently to deal with the adjustment costs of trade liberalization.

While the study gives a good background on the linkages between trade and employment, it does not offer a solution for how the “jobless growth” dilemma can be overcome and how trade can become a means to increase decent and productive employment opportunities. Moreover, the linkage between trade and the informal economy has not been scrutinized yet and needs further exploration. It was expressed the hope that the launch of the study could trig-

⁴Singapore Ministerial Declaration, WT/MIN(96)/DEC, WTO 1996.

⁵ See ILO/WTO: Trade and employment: Challenges for policy research, Geneva 2007.

ger a tripartite policy dialogue on this issue at national level.

In contrast to the difficulties of including social (and environmental) standards in multilateral trade agreements, they have already been integrated in various bilateral and regional trade and investment agreements. However, the main challenge remains the effective implementation of those standards throughout the whole supply chain. It was mentioned that monitoring subcontractors has been almost impossible and that trade unions should fulfill their role as “watch dogs”, since trade sanctions would probably not work. Along the lines of the argument of enterprises, i.e. “we cannot wait for 10 years until trade agreements are finalized”, the same should be true for the implementation of core labour standards. The “OECD Guidelines for Multinational Enterprises” were mentioned as a promising approach. They require governments to establish national contact points, which promote the implementation and monitoring process. Moreover, it was mentioned that it should be in the self-interest of enterprises to apply core labour standards since workers’ productivity was most likely to rise.

The example of the Philippines illustrated that premature and externally induced liberalization could have devastating effects. The liberalization process during the 1980s and 1990s, which was prescribed by IMF and World Bank programs, led to stagnation (or even negative growth), rising unemployment and declining real wages in the Philippines. Together with the political instability of the country, this period became known as the “lost decades”.⁶ To mitigate or even avoid such negative adjustment costs, the liberalization process should be sequenced carefully and be accompanied by complementary measures, such as retraining of workers and social safety nets. Therefore, it was reemphasized the need to conduct employment impact assessment studies before opening up.

5. Outlook

What would be the scenario if the Doha Round would go into the freezer for some years? WTO would continue to exist and exert its various functions, such as the Trade Policy Review and Dispute Settlement Mechanisms. Trade, investment and financial flows are expected to grow anyway in the future. Regionalism would probably become even more important together with preferential trade agreements, especially between developed and developing countries (“North-South Agreements”).

However, it was also mentioned that there was a lot to lose, in particular for developing countries. Much time, financial resources and efforts have been spent in the negotiations. The multilateral trading system would face a shock and instead of restoring its legitimacy it would be further undermined. The developing countries, who account for around two-thirds of WTO members, would be betrayed in their aspiration to recalibrate multilateral trading rules in their favour.

Moreover, it was emphasized that trade was not an end in itself, but a means toward the goal of human development and poverty reduction. While fair multilateral trade rules are a necessary condition for developing countries to use trade as a vehicle for development, each country has to find its own development path and define the role of trade in that process. This remains the core responsibility of each individual state.

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⁶ See Melisa R. Serrano: Of Jobs Lost and Wages Depressed: The Impact of Trade Liberalization on Employment and Wage Levels in the Philippines, 1980-2000. A Research Report, March 2007.

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