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Friedrich-Ebert-Stiftung in Southeast Asia

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Editorial: Dialogue + Cooperation 1/2007

Dear Reader,

For over a decade, ASEAN-EU relations were strained by an ongoing disagreement over how to react to the political situation in Myanmar. While ASEAN has developed a policy of 'constructive engagement' based on non-interference, non-discrimination and consensus, the EU has opted for a policy of criticism and sanctions from which, according to the EU Council Common Position of October 2004, only humanitarian aid and certain areas of development aid are exempt. A loosening of these restrictions is offered on condition that the Myanmar government lift the house arrest of opposition leader Daw Aung San Suu Kyi and grant the opposition, above all the National League for Democracy, more political rights.

In view of the continuing political stalemate, it seems clear, however, that the sanctions have not achieved the outcome sought. Instead of fostering reform, this isolation has only reinforced the siege mentality of the regime. What is more, they have contributed to the impoverishment of the population at large, thereby eroding human resources and destroying, rather than creating, the preconditions for economic development and political change.

Against this backdrop, the Myanmar Institute of Strategic and International Studies and the Friedrich-Ebert-Stiftung office in Kuala Lumpur organised on 19-20 September 2006 in Yangon, Myanmar, a workshop on 'Challenges and Prospects for the Future of ASEAN-EU Relations'. Participants were high-ranking diplomats and academics from Europe and Myanmar. This edition of D+C presents some selected contributions from the workshop.

In his article, Timo Kivimäki explains the logic of the official European Union arguments in its Myanmar policies and the alternatives suggested by Robert H. Taylor and Morten B. Pedersen during the 'Burma/Myanmar Day' Conference on 5 April 2005 in Brussels. These suggestions, in the aftermath of the conference, fuelled a heated debate among civil society organisations in Europe and elsewhere, but ultimately entered into considerations of the UN Security Council. Yin Myo Thu in his paper looks into the different forms of regional cooperation in Asia and Myanmar's role in them. David Fouquet, Jasmin Lorch and Paul Pasch finally provide a comprehensive workshop report which is more a policy paper than a mere summary of events.

On 28 July 2006, the General Council of the WTO supported the recommendation of its director-general, Pascal Lamy, to suspend the Doha negotiations and give all members time for reflection. The decision was made after the July 2006 talks in Geneva failed to reach an agreement about reducing farming subsidies in the US, agricultural tariffs in the EU and industrial tariffs in the largest developing countries. Due to time constraints, it became obvious that without this agreement it was impossible to finish the negotiations of the whole Doha Development Round by the end of 2006, as stipulated in its agenda. Although previous multilateral negotiation rounds had faced stalemates because of antagonisms between the EU and the US, they never broke down or were formally suspended. Currently, it is unclear whether or when the Doha Round will resume. A successful outcome seems increasingly unlikely because the trade authority granted under the

Trade Promotion Act of 2002 to US President Bush ends in July 2007. Past that date, Congress will resume its power to amend any trade agreement presented to it. Since WTO members will be from that date on unsure whether they will obtain any real commitments from the US it becomes less attractive for them to participate in further Doha negotiations.

Against this background the WTO Secretariat and the Friedrich-Ebert-Stiftung Office for Regional Cooperation in Southeast Asia conducted a dialogue on 'WTO at Crossroads? Experiences and Expectations around the Doha Agenda' from 30-31 October 2006 in Singapore. Participants were some 40 academics, officials from trade ministries and the WTO Secretariat, civil society and trade union representatives from Asia.

From this dialogue, there are some selected papers brought forward for a larger audience. As introduction to the debate, Steffen Grammling provides a comprehensive overview of the issues at stake. In his paper, Mark Thirwell looks into the factors that led to the suspension of the Doha Round and offers some likely scenarios for the future of multilateral trade arrangements. Whatever end the Doha negotiations reach, the multilateral trade system needs to be reformed in order to recover, he concludes. From a quite different angle, Aileen Kwa highlights the concerns of civil society groups around the world. Criticising the lack of transparency in the WTO negotiations, in which the world trade powers fix the agenda in exclusive and informal backroom meetings and while the weak developing countries are left outside the door, she argues that liberalisation of trade is the wrong paradigm for development. With reference to the economic rise of the Asian tigers, she points out that their success depended on market protection, not liberalisation, during the phase of developing nascent industries into market powers. From a similar point of view, Bonnie Setiawan argues that the so called Trade for Aid package in the Doha Round is a bargaining chip to keep the least developed countries on board. Conceived as an assistance for developing countries to increase exports, to better integrate into the multilateral trading system and to benefit from liberalised trade, the Trade for Aid package is, he argues, a new slogan for old-fashioned structural adjustment programmes. As they probably will not meet the expectations of the beneficiaries from LDCs, they will ultimately only replicate the failures of the previous Bretton Woods-induced structural adjustment programmes.

With the stalled multilateral Doha Round, there are concerns that the EU and the US will aggressively pursue bilateral and regional free trade agreements with developing countries. The opinions are divided. Some argue that developing countries have less bargaining power in regional negotiations and are susceptible to bullying. Others don't regret the stalemate of the Doha Round and regard regional trade arrangements as an opportunity for developing countries to expand their markets in the region and provide new opportunities for their producers. With regard to the mushrooming free trade agreements in Asia, Rahul Sen analyses the pros and cons of bilateral trade agreements. Whether they are a second best choice or a constructive step towards multilateral arrangements, Rahul Sen calms the euphoria about the 'noodle bowl' of Asian bilaterals. Questioning their effectiveness, he discovers that many either don't seem to be compatible with others, are overlapping, lack implementation or have been negotiated without taking into account the interests of relevant parties, i.e. the business community. Thus it appears that Asian states conclude bilateral agreements less to boost economy and trade than for political reasons and to foster a 'good neighbourhood'. From a different angle, Charles Santiago looks into the free trade agreements already concluded or to be concluded between the United States and Southeast Asian countries. In his view, the only winners in these agreements are

multinational corporations, at the expense of the development strategies of Asian countries.

All papers and statements reflect the opinions of the individual authors. The Singapore office of the Friedrich-Ebert-Stiftung would like to express its sincere appreciation to all contributors to this edition.

The Editor
Friedrich-Ebert-Stiftung
Office for Regional Cooperation in Southeast Asia

European Policies vis-à-vis the 'Burma/ Myanmar Issue': An Analysis of Arguments for Two Main Strategy Alternatives

Timo Kivimäki*

This article has two objectives. The first is to explicate, by means of documentary analysis, the logic of official European argumentation in Burma/Myanmar¹ policies and its alternatives suggested by Robert H. Taylor and Morten B. Pedersen. The focus on these two arguments is because of the fact that these arguments have been outlined as the two alternatives for the EU after the Taylor and Pedersen background paper "Supporting Burma/Myanmar's national reconciliation process: Challenges and opportunities" for the Burma/Myanmar Day Conference in Brussels, 5 April 2005.

It serves the objective of creating common ground to explicate both lines of argumentation because there seems to be considerable confusion and miscommunication in

the argumentation for both views. The most common of these is the suggestion that the EU has made development a hostage of political change,² or made political change an all-encompassing obsession and a solution to all the problems of Myanmar.³ However, as will be seen below, the EU documentation reveals an instrumental logic: instead of fundamental political reform being the only requirement for the achievement of the EU objectives in Burma/Myanmar, it is considered the instrumental starting point for progress in all fields. At the same time, the alternative approach has often been seen insensitive towards the imperatives of political reform,⁴ while in reality, it just suggests a different strategy for political reform and urges an approach in which the EU could work on a broader menu of problems. Since

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1. The issue of the name of the country reflects the controversy of the political status of its leadership. While Europe recognises the Myanmar government as a de facto entity, but not as a legitimate ruler of the country, it can not accept the legality of the new name (Myanmar) given to the country by its current rulers. However, the alternative model of approaching the country suggests that the EU should accept the official name, Myanmar. Since this study does not take sides in the debate, it uses the European name (Burma/Myanmar) when analysing the EU discourse and the name Myanmar when analysing the alternative discourse. The current military government is always referred to as the Myanmar government, since this is the government that named the country Myanmar. Theoretically, if one took the European approach of not recognising the legality of the Myanmar government, one could imagine a Burma government, but that would then be the one led by the elected forces (who, however, do not hold the de facto power). In any case the military government cannot be called Burma government.
2. Alex M. Mutebi, 2005. 'Muddling Through Past Legacies: Myanmar's Civil Bureaucracy and the Need for Reform', in Yin Hlaing Kyaw, Robert H. Taylor and Tin Maung Maung Than (eds.) *Beyond Politics to Societal Imperatives*, Singapore: ISEAS.
3. Pedersen, for example, writes: "Unless more is done to prepare the ground, democracy is likely ultimately to disappoint and could all too easily fail". (Morten B. Pedersen 2005. 'The Challenges of Transition in Myanmar', in Yin Hlaing Kyaw, Robert H. Taylor and Tin Maung Maung Than, op. cit., p. 179). Taylor and Pedersen write: "The EU must recognise that achieving democracy in Myanmar is a long term process, not a one off event, and revise its aims and strategic objectives accordingly". (Robert H. Taylor and Morten B. Pedersen, 2005. *Supporting Burma/Myanmar's National Reconciliation Process: Challenges And Opportunities*, background paper for the EC Burma Day Conference, 5 April 2005).
4. See a number of activist interventions into the debate related to the Burma Day Conference and the background report related to it (Taylor and Pedersen 2005, op. cit.).

criticism often seems to miss the logic of the target argument, it makes sense to explicate and analyse the structure of both of the arguments.

The second objective is to look into the existing evidence, based on a comparative study of conflict and democratisation, related to the causal chains explicated in the alternative arguments. This is done because, despite the fact that part of the criticism of both models is based on misunderstanding of the logical structure of the argument criticised, most of the disagreement is due to different empirical claims regarding the connection of European interventions with peace, democracy and poverty alleviation. So far these empirical claims have referred to speculative counter-factual arguments of how Myanmar would develop if European policies were different, or how the EU policies will eventually influence Burma/Myanmar. The fact is, however, that

we cannot have certainty on where EU policy will eventually lead, and we cannot say how an alternative policy would influence Myanmar. What we can do, in order to get beyond the counter-factual speculation, is to look at empirical generalisations based on comparative experiences in situations where relatively similar causal linkages could be observed. Of course, there are still Burma/Myanmar-specific contexts that make even this kind of analysis speculative: what works elsewhere does not necessarily work in Burma/Myanmar. Yet a comparative perspective can be an alternative to what we have seen so far. Furthermore, social sciences tend at least to aim at levels of generality, where we have 'conceptual/theoretical bags' with which it would be possible to carry lessons from previous cases to new cases.

European Official Model vs. Taylor-Pedersen Model

Objectives of the Models

Despite the developments of the approaches to and changes in assessments of the Burma/Myanmar issue, the fundamental European objectives in Burma/Myanmar have remained relatively unchanged. From the beginning, it seems that the European objectives are related to the people of the country rather than state-to-state relations, and the main targets are the promotion of a) democracy and human rights, b) peace/non-violence and c) the alleviation of poverty. The European Council Conclusion of

8 October 2005 defines these objectives as "Restoration of democracy, the pursuit of national reconciliation and the protection of human rights in Burma/Myanmar in the interests of all the peoples of the country".⁵ The objective of economic development of the people has been defined less explicitly, as it has been the assessment of the EU that political reforms are a condition for development.⁶ Yet the interest can be implicitly read from the efforts to limit the damage of sanctions to ordinary people⁷ and

5. The delegation of the European Commission in Bangkok, which has the major responsibility in the regional implementation of the EU's common approach to Burma/Myanmar, repeats this in its definition of the European position. European Delegation, Bangkok. *European Union-Burma/Myanmar Bilateral Relations*, www.deltha.cec.eu.int/en/eu_thailand_sea/myanmar_bilateral_relations.htm.
6. See for example Hervé Jouanjean, 2005, 'National Reconciliation and Foreign Assistance—The Future of the People Is Our Challenge', speech at the Burma/Myanmar Day in Brussels, 5 April 2005, by the deputy director general (external relations), European Commission: "The main reasons for weak economic fundamentals are 'home made'".

the careful limitation of the aid-related restriction in the 2004 Common Position,⁸ as well as in the actual development cooperation of Europeans in the country.⁹ If one compares the debate that led to the earlier European Common Positions with the debate related to the 2006 Council Regulation (EC, No 817/2006 of 29 May 2006), one can probably say that the objective of protecting the poor and vulnerable has gained more prominence in European thinking (arguably largely because of the intellectual interventions by Taylor and Pedersen).

The alternative model¹⁰ offered by Taylor and Pedersen is not a Common Position or a policy paper that would explicate policy objectives, but a scholarly intervention offering more accurate understanding for policy formulation. Thus it starts basically from the European objectives of democracy, development and peace, and looks at alternative strategies to promote these objectives. Thus the general objectives of the alternative model are the same as those of the European policies. Yet it is clear that, implicitly, Taylor and Pedersen start from a much broader definition of democracy, peace and development.

The fact that the alternative model shows that democracy and better governance require more than just the stepping down of

the current Myanmar leadership also makes the treatment of the objective broader: democracy for the alternative model means 'a lot more than regime change'.¹¹ The report for the European Commission by Taylor and Pedersen suggests that it means at least greater openness, greater mobilisation of civil society and greater educational preparedness of the people to participate in politics, while some other writings by the authors suggest that the objective of democracy should also encompass reform on the level of the civil administration.¹² Furthermore, democracy outside the core areas of the country would also require the issue of the unit of governance in specific issue areas be settled: the relation between the capital city and the outer regions is essential to the realisation of the power of people in politics.¹³

While the concept of peace in the latest statements of the EU seems to have broadened, one of the main arguments related to objectives of the alternative model has also been that peace is not only a matter of settlement of conflict between the democracy movement and the government, but that the conflict in Myanmar is about a double crisis, on the power of civil society and the power of regions (as opposed to the power of the central authorities).¹⁴

Development problems in the alternative model, again, are defined much more

7. See, for example, *ibid.* 'As the EU has strengthened its sanctions against the military regime it also recognized that it did not mean to hurt the ordinary people of Burma/Myanmar'.

8. Article 5, Common Council Position 2004/730/CSFP.

9. RELEX. Burma/Myanmar: Commission allocates more than 11m Euros for vulnerable populations, http://ec.europa.eu/comm/external-relations/Myanmar/intro/ip04_29-12-04.htm.

10. Here the main sources used for the explication of the 'alternative model' are Taylor and Pedersen, *Supporting Burma/Myanmar's National Reconciliation Process*, *op. cit.*; Robert H. Taylor, 'Pathways to the Present', in *Beyond Politics to Societal Imperatives*, *op. cit.*; Morten B. Pedersen, 2005, 'The Challenges of Transition in Myanmar', in *ibid.*

11. Pedersen 2005, *op. cit.*, p. 166.

12. *ibid.* For an elegant argumentation for this expansion of democracy thinking, see Mutebi 2005, *op. cit.*; David I Steinberg, 2001. *Burma: The State of Myanmar*. Washington DC: Georgetown University Press.

13. Martin T. Smith, 1999. *Insurgency and Politics of Ethnicity*. New York: Zed Books. For an elegant argument for the same broader definition of development and democracy in the Myanmar case, see Jürgen Haacke 2006. *Myanmar's Foreign Policy: Domestic influences and international implications*. Adelphi Paper 381, London: Routledge & IISS.

14. Taylor 2005, *op. cit.* See also Smith 1999, *op. cit.*; Martin T. Smith 2005. 'Ethnic Politics and Regional Development in Myanmar: Need for New Approaches', in *Beyond Politics to Societal Imperatives*, *op. cit.*

broadly than in the European official debate. While the alternative model clearly outlines many more macroeconomic challenges,¹⁵ the EU objectives talk about poverty of vulnerable civil society groups. This, however, could be simply because of the difference of the strategies. If economic development is seen as a condition for democratisation (as to some extent is the case in the alternative model), and if develop-

ment cooperation is seen as an instrument for democratisation, economic problems get a broader attention, while if democratisation is seen as precondition for genuine development (as to a large extent is the case with the EU model), then the attention economic problems get before a regime change is more narrow.

Strategies of Peace, Development and Democracy: The EU Model

The European strategy that can be derived from both actions and declarations is based on considerations on two layers. On the one hand, Europe tries to optimise the direct impact of its actions and minimise the direct disutility of its actions, while on the other hand, the consideration is on the indirect impact of EU policies through pressure on the Myanmar government. It seems clear that the latter dimension has traditionally been dominant, but there seems to be some change towards emphasising more the direct influence too. Arguably this change has been partly brought about by interventions from the expert community, including Burma/Myanmar experts in European diplomatic corps as well as academic experts, not least Taylor and Pedersen.

While very recently, European members of the UN Security Council (United Kingdom, France, Denmark, Greece and Slovakia) have endorsed its treatment of the Burma/Myanmar issue, one cannot find evidence of a common European position for direct military action in support of regime change in Burma/Myanmar.

1. Security Council-mandated military action against Myanmar government ⇒ Myanmar government yields and steps down a democracy, development and peace.

Such a scenario could be imaginable only in the context of European adjustment to the US strategy, and even here it would be likely that instead of a common European strategy, direct European military support for such an action would involve uncoordinated national contributions.

Another extreme direct approach aiming at direct influencing with economic sanctions could be imagined, using the logic of supporting a revolution by contributing to an economic collapse in Myanmar.

2. Economic sanctions ⇒ economic collapse ⇒ political collapse ⇒ popular uprising ⇒ Myanmar government yields and steps down ⇒ democracy, development and peace.

This is an academic alternative in the European context, and not supported (at least openly) by any of the European policy documents, even though some economic sanctions could theoretically contribute to economic and social disruption in Burma/Myanmar. Yet this avenue to democracy is criticised by the alternative model, which pays attention to the suffering of the Myanmar population and also argues for the unfeasibility of this path to democracy. 'Some argue that social unrest is just what

15. Taylor and Pedersen 2005, *op. cit.* See also David I. Steinberg 2005. 'Myanmar: The Roots of Economic Malaise', in *Beyond Politics to Societal Imperatives*, *op. cit.*

Myanmar needs to press the need for political and economic reform home to the military rulers. However, it is more likely to reinforce the military's siege mentality, lead to heightened repression, and delay any process of national reconciliation.¹⁶

However, the original European consideration of the direct consequences of its policies in Burma/Myanmar related to whether interaction with Europe contributes to the capacity of the Myanmar regime to implement policies that Europe viewed as repressive. This policy is based on the following causal logic:

3. Extensive European relations with Burma/Myanmar ⇒ empowerment of authoritarianism ⇒ disservice to democracy, peace and development.

The debate on an arms embargo, the suspension of defence cooperation and the ban on military aid were naturally also part of the considerations related to pressuring the Myanmar regime, but at the same time they were very much influenced by the fear of Europe becoming complicit in the Myanmar government's repression. Thus the logic of European argument was that military, political/diplomatic and economic disempowerment of the Myanmar government would directly lower the scale of repression in the country. The measures that supported this strategy were the following.

- a. Arms embargo, 1990.
- b. Suspension of defence cooperation, 1991.
- c. Ban on military aid, 1996.¹⁷
- d. Visa ban, 1996.
- e. Freezing of funds of members of the government or any legal or natural person associated with them, 2000.¹⁸
- f. Ban on loans to Myanmar SOE, 1996

- g. Suspension of bilateral non-humanitarian aid, 1996. This was qualified in 2004 to allow non-humanitarian aid, channelled through UN organisations, NGOs or local decentralised civilian bureaucracy if it:
 - addresses 'human rights, democracy, good governance, conflict prevention and building of capacity of civil society' or
 - addresses 'health and education, poverty alleviation and in particular, the provision of basic needs and livelihoods for the poorer and most vulnerable people' or
 - promotes 'environmental protection, and in particular programmes addressing the problem of non-sustainable, excessive logging resulting in deforestation'.¹⁹

Many of the above measures are, however, mostly for indirect influence in the context of political bargaining with the Myanmar government. Especially the economic and political side of the disempowerment policy relies on a delicate balance between the direct impact of not empowering the government, and the failure to empower and help the people.

However, the European approach can mostly be explained in the context of bargaining with pressure. The ultimate aim is to bring about a political change in which the military government steps down and allows free elections and the peaceful development of the country.

More detailed, declared objectives of the EU pressure, on the way to the three above developments, are to persuade by sanctions the government to

1. start a dialogue between the government and democratic forces;

16. Pedersen, *op. cit.*, p. 177.

17. Common Council Position 1996/635/CFSP.

18. Common Council Position 2000/346/CFSP.

19. Common Council Position 2004/730/CSFP.

2. allow a genuine and open national convention;
3. end the detention of Aung San Suu Kyi and other members of the NLD and other political detainees;
4. stop harassment of the NLD and other political movements;
5. stop human rights violations, including forced labour (failure to implement ILO 2001 recommendations);
6. end restrictions on NGOs and international organisations.²⁰

In addition to these documented bargaining objectives, member countries of the UN Security Council also must have objectives related to international security for pressuring the Myanmar government. To justify bringing the case of Myanmar to the Security Council, there had to be a perceived threat to international security. Thus stronger measures against the drug trade or stronger guarantees against opting to acquire nuclear weapons also must be in the list of European objectives in bargaining with the Myanmar government.

The means of EU persuasion are again an arms embargo, suspension of defence cooperation, a ban on military aid, a visa ban, freezing of funds of members of the government or any legal or natural person associated with them, ban on loans to the Myanmar SOE and the suspension of bilateral non-humanitarian aid, all of which are to pressure the

Myanmar government to yield to the EU objectives. The logic of this approach follows the general logic of bargaining, and the EU actions taken are not necessarily intended to avoid direct harm to European interests and objectives, but instead to cause more harm to the Myanmar government and thus be an incentive for the authoritarian rulers to allow the achievement of democracy, human rights, development and peace.

An analysis of the EU rhetoric suggests three types of causal scenarios that the conditionality strategy relies on. These scenarios are the following:

4. *Pressure (sanctions) ⇒ government yields and steps down or negotiates a transition to civilian power ⇒ democracy, development and peace.*
5. *Pressure (sanctions) and popular uprising ⇒ government yields and steps down or negotiates a transition to civilian power ⇒ democracy, development and peace.*
6. *Pressure (sanctions) that hurts political forces that are needed for the power base of the government ⇒ bureaucratic/popular uprising ⇒ government yields and steps down or negotiates a transition to civilian power ⇒ democracy, development and peace.*

Strategy of the Alternative Model

The alternative model has often criticised the balance in the EU strategy between the direct impact of not empowering the government, and the failure to empower and

help the people. The first target of criticism is the European lack of dialogue and interaction. The lack of bilateral relations and the visa ban are detrimental for devel-

20. Council Regulation (EC) No 798/2004 of 26 April 2004, renewing the restrictive measures in respect of Burma/Myanmar and repealing Regulation (EC) No 1081/2000 [9]; Common Position 2004/730/CFSP; Common Position 2005/149/CFSP; Common Position 1996/635/CFSP.

opment, democracy and peace.

According to the alternative model, democracy can also be spread through extended 'policy dialogue with the government and civil society'.²¹ Dialogue and development can directly contribute to the growth of Myanmar's capacity to implement democratic reforms. At the same time, according to the alternative model, isolation and lack of dialogue are harmful because they discourage training for a younger group of technocrats who would be necessary for a broader democracy and good governance.²² Broader cooperation, instead of isolating sanctions, could bring about good governance on the level of public administration, regardless of how political reform develops on the highest levels: 'sanctions also contribute to maintaining a situation where no one in authority pays any serious attention to governance issues'.²³

The alternative model suggests democratisation through micro-conditional (conditional in a micro context) development cooperation in, for example, small-scale agriculture, basic education and community development.²⁴ Also policy dialogue on substantial policy issues is recommended as a way to broader democracy.²⁵

1. Engagement ⇔ empowerment of civil society and improvement of micro-governance ⇔ improved broad democracy and development.

2. Isolation/sanctions ⇔ poorer micro-governance ⇔ reduced democracy, peace and development in a broad sense.

The alternative model also suggests that development cooperation, and perhaps also

more extensive economic interaction between Myanmar and Europe could create the educational foundation for development and democratisation (and perhaps for peace, too): 'there is a strong relationship between democratisation and a healthy and educated population ...'.

3. Development cooperation ⇔ educational conditions for democratisation ⇔ democratisation.

The alternative model also emphasises the direct positive effects of a broader economic development cooperation, trade and investment relationship between Myanmar and Europe because this would enable the creation of a middle class, which is important for the development of democracy: "Widely recognized as helpful, for example, is the existence of a middle class which is economically independent of the state and capable to supporting the growth of viable civil society institutions able to stand apart from and in dialogue with the government. Such a class does not exist in Myanmar today and its development is dependent on the growth of the private sector of the economy."²⁶

4. Trade and investment ⇔ emergence of a Myanmar middle class ⇔ development towards democracy.

Sometimes the argumentation for the alternative model tends to ignore the fact that the EU model is not intended to produce direct results: naturally the cutting of aid, for example, is detrimental to Burma/Myanmar's development, but if it is successfully used as a bargaining chip and if,

21. Taylor and Pedersen, *op. cit.*

22. Steinberg, 'Malaise', *op. cit.*, p. 105.

23. Taylor and Pedersen, *op. cit.*

24. Taylor and Pedersen, *op. cit.*; see also Pedersen 2005, *op. cit.*, p. 174; Smith 2005, *op. cit.*, p. 72; Steinberg, 'Malaise', *op. cit.*

25. Robert H. Taylor, 'Speakers Notes When Presenting "Supporting Burma/Myanmar's national reconciliation process: Challenges and Opportunities"', Brussels, 5 April 2005, http://www.ibiblio.org/obl/docs3/Robert_Taylor_Speaker's%20Notes,_05-04-05-Brussels.htm.

26. Taylor and Pedersen, *op. cit.*

as a result, the country democratises, conditions for development are radically better. In these cases, the critique is simple and points to the detrimental effects of sanctions. Mostly, however, the alternative model is based on an assumption that contradicts the crucial point of the European argument. According to Taylor and Pedersen, the probability of the Myanmar government yielding to pressure is negligible: There is 'little international leverage over the regime because of the lack of integration of the economy into the world economy—Myanmar's ratio of trade to GDP in local currently [sic] terms must be the lowest in Asia if not the world ... [and therefore] The army government is firmly in power and is unlikely to be toppled in the foreseeable future'.²⁷ Even policies for the mobilisation of the political opposition or the democratically minded political elite will not bring about regime change, according to the alternative model: 'Internal tensions within the armed forces, while undermining the government's administrative capacity, provide no opportunity for the creation of political change'.²⁸ Also, the strategy of supporting the exiled pro-democracy elite or the National League for Democracy, the party that grabbed 82 per cent of votes in the last election in Myanmar, is doomed to fail: 'Links between foreign governments and the opposition have reinforced the military regime's natural propensity to suppress all political activity. INGOs should be helping create space for local groups involved in social welfare and development activities ... Training programs among exile groups in Thailand and overseas do not represent a viable alternative. There is little room for dissidents in a gradual process of liberation-by-negotiation which is the most likely scenario for change

in Myanmar'.²⁹ Furthermore, the alternative models see western sanctions as a source of an uncompromising attitude of the political elite. Support creates overconfidence and an illusion of forthcoming victory for the forces of the National League for Democracy.³⁰ In the alternative model there seems to be very little room for the participation of the forces that were a vast majority in the elections.

5. International pressure and support to opposition and democratic forces ⇔ increased authoritarianism.

6. International pressure and support to opposition and democratic forces ⇔ unyielding attitude of the democratic opposition groups.

Furthermore, even if the Myanmar government were to step down, this would not bring about democracy and development in a broader sense: 'Those who perceive their solutions as simple, and to be solved quickly by the mere introduction of democratically elected civilian rule, are in danger of deluding themselves'.³¹

7. Narrow democracy in absence of preparatory work ⇔ chaos, poor governance and lack of real development and democracy in a broad sense.

While the alternative model is very explicit about the poor prospects of a real democracy if preparatory work is not done among civil society, the bureaucracy and the business community, it is only implicit about the prospect of democratic development and peace under continued military rule. Some of the arguments clearly imply that broad democracy and economic development would really be better with the mili-

27. Taylor, 'Speakers Notes', *op. cit.*

28. Taylor and Pedersen, *op. cit.* Even the training of the exiled intelligentsia is not seen as a viable strategy. Pedersen, *op. cit.*, p. 176.

29. Pedersen, *op. cit.*, p. 176.

30. *ibid.*, p. 172.

31. Taylor, *op. cit.*, p. 1.

tary government than with an inexperienced democratically elected civilian government.

After reconstructing the causal models of the EU and the alternative approach, I will move to an assessment of the empirical strength of the causal chains that these models are based on, by looking at evidence from comparative conflict and democratisation studies, rather than from the history of Burma/Myanmar. I will start the exami-

nation of the causal chains from the general relationships between the main objectives of both models; democracy, development and peace. From there, I will move on to the analysis of the specific causal linkages identified in the competing models.

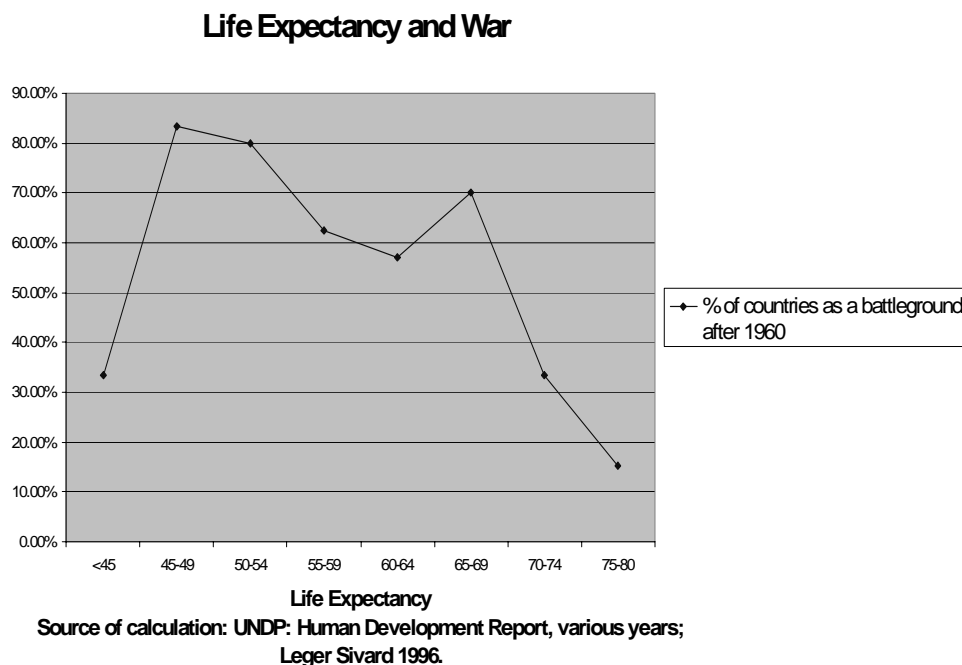
Causal Relationships: Peace, Development and Democracy

Peace and Development

Relations between peace and development are complex. On the one hand, a level of economic development has clearly been found an important condition for conflict prevention. This has been shown

very convincingly in a large comparative study by Humphreys and Varshney.³² The strong causal relationship between wealth and the low likelihood of civil wars does not suggest that wealth is an absolute con-

Graph 1: Prosperity and Likelihood of Conflicts



32. Macartan Humphreys and Ashutosh Varshney, 2004. *Violent Conflict and the Millennium Development Goals: Diagnosis and Recommendations*. CGSD Working Paper No. 19, www.earth.columbia.edu.

dition for intra-state peace, or that a strategy of conflict prevention requires development first. This is especially so, given that the causal relationship is strong in both directions: the achievement of wealth requires stability and peace. Also, the relationship between peace and level of income is more complex, as it seems that the relationship is not linear: the poorest nations do not have as many wars as the nations in the next poorest category, even if wealthy nations always tend to have much less war.³³

The fact that the probability of war is relatively small among the least developed countries and highest among slightly more developed countries, and that the probability of war drops drastically when countries develop further, has been explained in various ways. While it is known that the level of development increases the threshold of violence, it has also been noticed that the first steps in the modern capitalist path of development are dangerous. For example, the arrival of tax money in the coffers of the state provides an opportunistic motivation for political, ethnic and other groups to compete for political power.³⁴ This seems especially true for nations whose initial growth is based on the utilisation of natural resources because in these countries the distribution of revenue often causes opportunistic disputes.³⁵

In the case of Burma/Myanmar, with life expectancy at 61, further economic development would clearly mean reduction in the likelihood of conflict, while a decline would mean an increase of the risk of war. However, due to the lower level of economic development in the peripheral regions, a more efficient economic mobilisation of natural resources could temporarily increase the incentives for political competition, and this could make conflicts more likely.

At Burma/Myanmar's GDP per capita, the likelihood of war (conflict killing at least 1,000 people per year) within the next five years would double if the GDP were to halve, and the risk would be halved if GDP doubled.³⁶ In addition to the fact that higher average incomes are associated with lower levels of conflict, the process of growth as such tends to make an additional contribution to peace. According to Collier and Hoeffler, one percent of increased economic growth will mean one percent of reduced conflict risk.³⁷

More specifically, comparative conflict analysis suggests that development that increases socio-economic equality contributes significantly to reduced levels of social violence.³⁸ Furthermore, it seems that decentralising economic development fosters stability and peace.³⁹

33. However, bureaucratic authorisation, a process in which the executive sector gets much of the political power that used to belong to the people, also seems to be a reaction to economic troubles (Guillermo O'Donnell, 1978. 'Reflections on the Patterns of Change in the Bureaucratic-Authoritarian State', *Latin American Research Review*, 13:1, p. 18).

34. Paul Collier and Anke Hoeffler, 2000a. *Greed and Grievance in Civil War*. Available from World Bank home page, www.worldbank.org.

35. Paul Collier and Anke Hoeffler, 2000b. *Aid, Policy and Peace*. Available from World Bank home page, www.worldbank.org; Michael L. Ross 2000. *Does Resource Wealth Lead to Authoritarian Rule: Explaining the Midas Touch*. Available from World Bank home page, www.worldbank.org.

36. This conclusion is based on the logic of quantitative analysis by Collier and Hoeffler (2000b), which has been fitted by the author to the level of development of Burma/Myanmar.

37. Calculated from data in Paul Collier and Anke Hoeffler, 2002. *Aid, Policy and Peace: Reducing the Risks of Civil Conflict*. Centre for African Economic Studies, Oxford University. Working Paper Series. Available at www.caes.ac.uk; see also Paul Collier and Anke Hoeffler, 2004. 'Aid, policy and growth in post conflict societies', *European Economic Review*, 48, pp. 1125-1145.

38. James K. Boyce (ed.), 1996. *Economic Policy for Building Peace: The Lessons of El Salvador*, Boulder, CO.: Lynne Rienner; Frances Stewart 2005. *Policies Towards Horizontal Inequalities in Post-Conflict Reconstruction*. CRISE Working Paper 7. www.crise.ox.ac.uk.

Thus support for Myanmar's development, especially support for the equalisation of regional and ethnic disparities, and cooperation that empowers the least developed ethnic communities would in general contribute to peace in the country, regardless of political development. However, how that

contribution would compare with the loss of European bargaining for democracy depends on the relationships between democracy and development, as well as on the causal relationship between European persuasion and democratisation.

Peace and Democracy

The relationship between peace and democracy has also been studied comparatively. According to Rudolph Rummel's calculations,⁴⁰ for example, conventional civil wars between 1900 and 1987 killed 'only' 38 million people, while victims of police brutality, military operations against one's own citizens outside the context of civil war, genocide, political killings by government and religious and regional persecution killed 169 million people: governments killed more than four times the number of people killed in wars.⁴¹ There is very strong evidence of a positive association between media freedom and a reduced risk of violence by the state against its citizens, the most prominent source of violence. According to Rummel, lack of democracy is the main predictor for genocides, arbitrary killings by the security apparatus and violence by the state. In addition, corrupt, structurally violent practices by public officials are always easier in the absence of independent media. Thus lack of democratic freedoms can already contribute to political violence that Europe would not like to see in Burma/Myanmar. However, the question left open is what kind of democracy protects citizens against this type of political violence. Violence by officials could be typically labelled as a governance problem,

and this cannot be tackled by a policy that focuses only on regime change. Engagement that focuses on helping Burma/Myanmar to improve the quality of public administration would then directly address authoritarian political violence, which seems to have been the prevalent type of political violence in the world during the last century. But in order to maximise progress in the reform of public administration, high-level political reform could be useful. One has to note that the above calculations on the relationship between political regimes and authoritarian violence are based on observations related to what we have called the narrow concept of democracy (regularity of elections/competitiveness of executive recruitment and restraints on the executive). Thus again, how much a stubborn European sanctions policy helps depends on its effectiveness in helping in Burma/Myanmar's democratisation of the political system. In any case, these results seem to support a policy by which Europe would try to support the development of governance at micro level, but without losing sight of high-level political change and regime change.

Democracy seems to be associated also with a reduced risk of war between differ-

39. Ted Robert Gurr and Mark Irving Lichbach, 1979. 'Forecasting Domestic Political Conflict', in J. David Singer and Michael D. Wallace (eds.), *To Augur Well: Early Warning Indicators in World Politics*, Beverly Hills, CA: Sage Publications.

40. Rudolph Rummel, 1994. *Death by Government*, New Brunswick: Transaction Publishers.

41. During the Cold War, governments killed eight times the number of people wars killed. See calculations by the author in Timo Kivimäki, 2003. *Development Cooperation as an Instrument in the Prevention of Terrorism*, Copenhagen: Royal Danish Ministry of Foreign Affairs.

ent civil society groups and of rebellious violence.⁴² The risk for a citizen of dying in civil wars is reduced by more than half (from 0.56 to 0.24 per cent) if the citizen lives in an open, democratic society instead of an authoritarian polity.⁴³ Thus, despite the failure of Burma's parliamentary democracy (1948-1962) to bring about political harmony and despite the relatively impressive record of the authoritarian government of today, comparative evidence suggests that a democratic Burma/Myanmar would be even more effective in the resolution of its

nationality issues. This again would suggest that, despite the accusation of the alternative model about the EU's obsession with Myanmar's highest level political reform, change from a military to a democratic regime would help Myanmar settle its nationality issues. Instead of the nationality issue being the justification for an authoritarian approach, it should be seen as a reason for European support for a political change at the highest levels.

Democracy and Development

Perhaps the most well-known tested empirical generalisation on the relationship between democracy and development can be found in the Nobel Prize laureate Amartya Sen's theory, based on extensive quantitative data, that democracies are less likely to experience extreme expressions of poverty, especially famine. If government on various levels manages to create responsiveness towards the grievances of the people, catastrophic situations can be avoided.⁴⁴ Again, while common sense would suggest that responsiveness would require good public administration and thus a broader sense of democracy of the type that EU policy has tended to neglect, Sen's calculations are based on indicators of regime type, and thus refer to the narrow concept of democracy. It seems again that good public service is much more likely in the context of democratic government than of military rule, and that the responsiveness of the public sector to the threat of famine seems to be easier to develop if there is first a conducive political regime in place: while working for an improved level

of governance on the micro level, there seems to be a reason not to lose sight of the big picture.

However, the relationship between democracy and development also goes in the other direction. The alternative model suggests that democracy requires preparatory development. There seems to be a consensus also in comparative democracy studies that a developed middle class is a force for democracy. A functioning democracy also requires some levels of education, even though, again, this level might be easier to achieve after rather than before democratisation at the top of political administration.

However, the relationship between prosperity and democracy is also complicated because there seems to be evidence suggesting that democratisation often takes place as a result of economic decline.⁴⁵ Especially the so-called third Wave of democratisation seems to have been brought about by popular pressures on government, caused

42. T. Ellingsen and Niels Petter Gleditsch, 1996. 'Democracy and Armed Conflict in the Third World', in Dan Smith and K. Volden (eds.) *Causes of Conflict in the Third World*. Oslo: North-South Coalition and International Peace Research Institute.

43. Rudolph J. Rummel, 1995. 'Democracies ARE less Warlike Than Other Regimes', *European Journal of International Relations*, 1, pp. 457-479.

44. Amartya Sen, 1999. 'Democracy as a Universal Value', *Journal of Democracy*, Vol. 10, No. 3, pp. 3-17.

45. Samuel P. Huntington, 1993. 'Democracy's third wave', in Larry Diamond and Marc F. Plattner (eds.), *The Global Resurgence of Democracy*, Baltimore: The John Hopkins University Press, pp. 3-25.

by an economic decline. The falls of Suharto and Marcos are two Southeast Asian examples of this.

Thus the evidence from other cases of developing countries does not support the thesis of the alternative model that development has to precede democracy. But neither does the idea that nothing can be done before regime change, which can be

read from an extreme interpretation of the EU line, make sense. Improving the quality of governance on a micro level should not wait until a drastic change, even if regime change could make it easier. The specific conditions of Burma/Myanmar determine the degree to which focuses on regime change and on improving conditions by working on local and regional administration can be conducted in parallel.

Narrow Democracy and Good Governance

There seems to be clear evidence suggesting that good governance and democracy are related: good governance predicts democracy and democracy predicts good governance. Data are available from 1800 until 2003 on the level of democracy as well as on the level of human rights and on the level of stability of the polities of the world (Polity IV data). According to these data, good governance in the sense of limitations to the power of the executive towards the citizens (the human rights aspect)⁴⁶ and democracy are very strongly associated (spearman correlation coefficient 0.66, $n=5708$), and the fact of these two having just coincidentally existed together in polities is very low (less than 0.01 per cent). Also, stability of regime transition⁴⁷ and democracy tend to belong together. Here the correlation is much lower, but nevertheless sufficiently systematic to make it significant and clearly not coincidental.

The fact that good governance and democ-

racy are associated does not reveal which would be needed for the other. The claim of the EU model in the Burma/Myanmar case would be that democracy would be needed for the development of good governance. In order to determine whether elections and the narrow type of democracy are a precondition for the improvement of governance⁴⁸ (the assumption behind the EU position), we look at the correlation between the level of democracy and the development in two chosen governance indicators. If these two have a significant, strong, positive association, we can conclude that the EU is correct in considering the narrow democracy attributes as a condition for the improvement of governance in Burma/Myanmar. Correlations between levels of democracy and development of governance (human rights and stability) are weak and in the case of the human rights development negative. Thus we can conclude that democracy is not a precondition for good governance. Democracy and good governance are strongly asso-

46. Human rights indicator: constraints to governance (XCONST, 1 = unlimited authority, 7 = executive parity or subordination), which looks at

- a. Whether constitutional restrictions on executive action are ignored.
- b. Whether the constitution is frequently revised or suspended at the executive's initiative.
- c. Whether there is a legislative assembly and if so whether it is called and dismissed at the executive's pleasure.
- d. Whether the executive appoints a majority of members of any accountability group and can remove them at will.
- e. Whether the legislature can initiate legislation or veto or suspend acts of the executive.
- f. Whether rule by decree is repeatedly used.

47. Stability indicator: regulation (democratic or authoritarian) of executive recruitment (XRREG, 1-3, 1 = unregulated: changes in chief executive occur through forceful seizures of power, 3 = regulated: chief executives are determined by hereditary succession or in competitive elections).

48. This is calculated by looking at how the indicators of governance develop in the following year.

ciated and tend to come in one package, but not in such a way that democracy (elections) would need to precede good governance. Thus the EU model is wrong on this particular issue.⁴⁹

However, the test of the alternative model was no less damning. In order to determine the validity of the alternative assumption of the need to build conditions for democratisation before pushing for democracy, we will look at the level of governance values and see whether they correlate with democratic development. If there is a significant, strong, positive association, we can conclude that the alternative model is

right in insisting on governance reforms first and elections only after this development. Both correlations (regulation \Rightarrow democratic development and executive constraints \Rightarrow democratic development) were weakly negative. Thus the assumption of the alternative model of governance reforms necessarily preceding democracy also goes to the bin.

Thus in the development of democracy in Burma/Myanmar, pressure for a regime change can exist together and simultaneously with the development of better governance. Neither of the two necessarily needs the other as a prerequisite.

Do Pressure and Persuasion Bring About Regime Change?

While the analysis of causal relations between democracy, peace and development

already contributes ideas that could be discussed in the context of Burma/Myanmar,

Table 1. Recent Democratisation Cases Involving Sanction

Country	Economic trouble	Sanctions	Popular uprising	Elite 'mutiny'	International involving of the elite	Violence
South Africa	Yes	Yes	Yes	Yes	Yes	Less than expected
6 East European countries: Poland, Czech., Lithuania, Estonia, Latvia, Hungary	Yes	To a degree, but changing of power balance and the international cause	Yes	No	No	No
Rumania	Yes	Yes	Yes	No	No	Yes
Russia	Yes	Yes	Yes	Yes	Yes	less than expected
Yugoslavia	No	No/Yes	Yes	Yes	No	Yes
Philippines	Yes	Yes	Yes	No	No	No
Indonesia	Yes	Yes. Refusal to bail out the elite from an economic meltdown	Yes	Yes	No	Yes

49. The observation is focused on those countries that can improve their democracies or governance, since if this was not the case the large number of democracies or perfect systems of governance would give a bias suggesting that the existing high level reduces the likelihood of progress in democracy. Thus when testing the assumption of the alternative model, cases where democracy cannot develop were excluded from examination, while in the examination of the EU model, cases where governance cannot be developed were excluded from examination.

the crucial disagreement between the alternative model and the EU model is about the effectiveness of sanctions. While there are studies on the costs of economic sanctions and the harm they cause to the civilian population,⁵⁰ there have not been convincing broad comparisons of the successful and unsuccessful cases of pro-democracy sanctions. On the one hand, calculations by the current author on the basis of the correlates of war data on wars with and without international interventions tend to suggest that international interference shortens internal conflict (between governments and the opposition, as in the case of democratic transitions, or between horizontal groups) and reduces the number of casualties, despite the fact that international intervention intensifies fighting. However, it seems that economic or military interventions in the absence of diplomatic communication tend to delay the settlement of intra-state conflicts, such as the one between the Myanmar government and the democratic opposition.⁵¹ However, sanctions, together with diplomacy, dialogue and the facilitation of contacts, or mediation, between the opposition and the authoritarian regime tend to help reconciliation between the two. Here the clearest message for the Burma/Myanmar case is that diplomatic isolation in the European policy seems to be counterproductive. Quite as the alternative model suggests, in order to help peace and democracy in Burma/Myanmar, Europeans should engage in dialogue with the government, but also with the democratic opposition, and try to help and encourage the exchange of information between the two. However, what is also clear on the basis of comparative evidence is that sanctions can be part of a constructive policy of engagement for the EU, unlike

the alternative model's suggestion.

A short summary of 12 recent cases of democratisation tends to suggest that sanctions can be part of peaceful democratisation, but only when they are coupled with dialogue and facilitation of the flow of information. Thus it would be daring to accept fully the assessment of the alternative model that sanctions can in no circumstances contribute to a regime transfer. At the same time, cases such as Somalia, Afghanistan and Iraq also suggest that insensitive pro-democracy sanctions and intervention, especially if not coupled with dialogue and engagement in some unsanctioned level of interaction, and sanctions that come out of western domestic pressures rather than serious, informed calculations of their consequences, can produce results that are disastrous for the people, for democracy and especially for peace.

If we look at table 1, it seems that democracy can be helped by sanctions, especially if sanctions show the political elite that supports the regime that this regime is not beneficial to their interests. Sanctions alone, not 'mandated' by a popular uprising, also tend to be efficient less often. Another clear lesson we can learn from the few recent examples is that in the absence of a dialogue with the government, sanctions tend to support, not a peaceful transition, but rather a violent one. This observation clearly speaks against sanctions (such as the visa ban) that hinder dialogue between the EU and the Myanmar government. It is common wisdom in the theory of dispute resolution that in order to influence your 'enemy', you have to communicate with him. Especially in conflict situations, the de facto power holders need to be engaged in the search for a solution.⁵² In Myanmar, as

50. John Muller and Karl Muller, 1999. 'Sanctions of Mass Destruction', *Foreign Affairs*, May/June.

51. Patrick M. Regan and Aysegul Aydin, 2006. 'Diplomacy and Other Forms of Intervention in Civil Wars', *Journal of Conflict Resolution*, Vol. 50, No. 5, October, pp. 730-756; Dylan Balch-Lindsay and Andrew J. Enterline, 2000. 'Killing Time: The World Politics of Civil War Duration, 1820-1992', *International Studies Quarterly*, 44, pp. 615-42; Patrick M. Regan, 2002. 'Third Party Interventions and the Duration of Intrastate Conflicts', *Journal of Conflict Resolution*, 46(1), pp. 319-36.

Pedersen puts it, 'No solution is possible that ignores vital interests of those who have the power to veto any process of change'.⁵³

More thorough analysis of specific cases can further reveal that sanctions—together with personal, professional and ideological relationships between foreign supporters of democracy and individuals in the authoritarian administration—tend to help the process.⁵⁴ Furthermore, pressure coupled with good personal ties and facilitation of dialogue between the authoritarian government and the domestic pro-democracy forces tends to produce good results.

However, contacts with each party need to be such that they do not encourage both sides to 'overconfidence of their own position'.⁵⁵ So far the European record on this is not very good, according to Pedersen: European contacts with the NLD have encouraged the democracy forces to rigidity in their relationship with the government. This is a common problem in the approach to conflicts of well-meaning outsiders who want to give hope to supporters of democracy. Since it is a general feature of parties to conflict that they tend to have an irrational overconfidence in their bargaining position, supporting this overconfidence tends to make compromises more difficult.⁵⁶ Yet since the NLD is a party to the conflict, and for the settlement of conflicts one needs to involve all the main parties,

Europe should continue contacts with the democratic forces, since 'No solution is possible that ignores vital interests of those who have the power to veto any process of change'. However, in these contacts it would be a service to the democratic forces to keep in mind the political realities of Burma/Myanmar: while the NLD might consider itself the legitimate government, it is not the de facto government, and thus it has to respect that political reality.

Finally, European persuasive power towards the Myanmar government depends on the political setting. According to logic, the party with greater dependence on an agreement and a negotiated solution between the EU and the Myanmar government, is the one who has to yield (EU to lift sanctions, or Myanmar government to democratise). This logic tends to be a surprisingly strong reality in different phases of 'democracy bargaining'. Former President Jusuf Habibie of Indonesia describes the moments before the decision by President Suharto to step down in the following manner:

The last time I saw Suharto for a discussion was on Wednesday May 20, 1998 at 8–9:00 pm. Things were already then very wrong and we discussed the problems and Suharto announced that the cabinet had to be dissolved ... Suharto is a general and thus a strategist, and he had a dilemma with the demonstrations ... He could do

52. Harold Souders, 1991. 'We Need a Larger Theory of Negotiation: The Importance of Pre-Negotiation Phases', in William Breslin and Jeffrey Z. Rubin (eds.), *Negotiation Theory and Practice*, Cambridge, MA: Harvard School of Law, pp. 57–70; Jay Rothman, 1992. 'Conflict Management Policy Analysis', in Jay Rothman (ed.), *From Confrontation to Cooperation*, Newbury Park, CA: Sage; I. William Zartman, 1989. 'Pre-Negotiation: Phases and Functions', *International Journal*, 44, pp. 237–53.

53. Pedersen, *op. cit.*, p. 17.

54. For example, the ideological linkages between the Christian, anti-Communist, pro-free trade elites of the west and the apartheid government of South Africa played an important role in the democratisation of South Africa. See Juha Auvinen and Timo Kivimäki, 1998. 'Early Warning and Conflict Management in South African Democratic Transition', *Acta Politica*, No. 7, Helsinki.

55. This is one of the main arguments of Gochman's extensive analysis, based on the conflict data of the Correlates of War project from 1814 to 1970. See Charles Gochman 1979. 'Studies of International Violence. Five Easy Pieces?', in David Singer (ed.) *Explaining War: Selected Papers from the Correlates of War Project*, London: Sage.

56. For a fuller analysis of this general problem in the context of the Papuan conflict, see Timo Kivimäki, 2006. *Initiating a Peace Process in Papua: Actors, Issues, Process, and the Role of the International Community*, Policy Studies 25, Washington DC: East West Centre.

like Deng Xiaoping in Tiananmen Square and crush the demonstration. But he was dependent on foreign aid, so he could not do it ...⁵⁷

In terms of EU-Myanmar bargaining, it seems that the EU is not very dependent on a solution. This is why the case of Burma/Myanmar should not be compared to that of China. The lack of strategic and business interests might explain this, and the lack of preparation of the EU's Burma/Myanmar policies tends to testify to it. Close ties with China and India (and Russia) are also making Myanmar less dependent on the west. Yet the fact that crisis between the west and the Myanmar government tends to limit Burma/Myanmar's access to capital, technology and education makes the government perhaps more de-

pendent on better relations with the west, despite the fact that the nationalist political orientations of the Myanmar elite limit the subjective sense of dependence on foreigners. Even so, the fact that some important parts of Burma/Myanmar's humanitarian needs, such as education, play an important role for European leverage in democracy bargaining makes the balancing of bargaining and humanitarian policies difficult. Taking a position in this debate on the value of the leverage and the value of humanitarian needs would require extensive understanding of the Burma/Myanmar case.

Conclusions

Most of the policy alterations suggested by Taylor and Pedersen would bring the European approach closer to the approach of ASEAN.⁵⁸ This is interesting within the context of ASEM, because the EU presidency, in its chairman's statement on 11 September 2006, started the summit conclusions on Myanmar by welcoming the ASEAN approach of dialogue and flexible engagement, and failed altogether to mention the unilateral EU approach.⁵⁹ However, the EU interest in political reform at the highest levels of the Myanmar government would serve the interests of peace, development and democracy. The European sanctions regime will thus continue

until the 'road map' transforms the Myanmar government sufficiently to allow the EU to switch from sanctions to cooperation. It is highly unlikely that Europe will abandon its sanctions before there is a regime change. Changes to the common position in the common foreign and security policies would require a unanimous decision by all EU member countries, and achieving consensus in Europe on this issue is next to impossible, unless there is a major breakthrough in political developments in Burma/Myanmar. A breakthrough could be the product of progress in the road map. Thus the likely time for fundamental change in EU policies, and

57. Interview of Habibie by the author, 2000. According to Foreign Minister Ali Alatas (interview, 2001), Suharto probably did not consider the brutal suppression of demonstrations; instead, he considered introducing political compromises to contain the revolutionary pressures. According to Alatas, Suharto's decision to step down was a surprise, and probably was caused by personal considerations and domestic pressure. He did not want to speculate in detail about the last hours of Suharto's rule. As Suharto's successor, Habibie probably was in a better position to know what kind of options Suharto considered.

58. A good analysis of the ASEAN approach, including the rejection of isolation, can be found in Aung Zaw, 2001. 'ASEAN-Burma Relations', in *Challenges to Democratization in Burma: Perspectives on Multilateral and Bilateral Responses*, Stockholm: IDEA. See also Jürgen Haacke, 2006 *Myanmar's Foreign Policy: Domestic influences and international implications*, Adelphi Paper 381, London: Routledge and IISS.

59. Chairman's Statement of the Sixth Asia-Europe Meeting, Helsinki, 10-11 September 2006.

the revoking of European sanctions, would probably be when the seven steps of the government road map have been taken.

Democratic processes are rarely perfect and should first and foremost be built on the foundation of local realities, rather than global ideals. Therefore, it would also make sense for the EU to avoid text-book-absolutism in its approach to the road map. Instead, to make sure that the steps guided by the road map are not prevented by a lack of resources, the EU could be persuaded to commit substantial funds. Arti-

cle 5a of the 2004 Council Common Position allows aid for democratisation, and this type of aid could be needed, as relatively recent studies show that peace and democracy building require substantially higher aid contributions from the international community than normal phases of development.⁶⁰ By committing to a realistic timetable for implementing the road map, the Myanmar government would make it politically easier for the EU to move from its policy of confrontation towards a policy of cooperation.

60. World Bank, 2003. *Breaking the Conflict Trap*, Washington DC.

Challenges Ahead: ASEM, ARF, ASEAN + and APEC

Dr. Yin Myo Thu*

Regionalism is emerging everywhere in the world through regional groupings with various forms of membership, identity, primary goals, norms, standards, political leverage, institutional structure etc. As states within the international system are apparently more and more interdependent in the light of globalisation, interactions among regional organisations become pronounced not only in regional affairs but also in domestic reform measures, especially for countries in transition.

As the core of regionalism is to bring countries together to live peacefully and prosperously through cooperation, debates over regional identity, values and process emerge that lead to more and more regional cooperation. Regional cooperation gives countries greater opportunities for development as well as challenges for their national development to some extent. Myanmar is actively taking part in regional groupings such as ASEAN, BIMSTEC, GMS, NAM, ASEM, ASEAN +, ARF and APEC.

The emergence of regional organisations such as ASEM, ARF, ASEAN + and APEC, which have different modalities, goals, processes and ways of decision making, may also be challenges for these groupings themselves in conducting group interactions in the future. The idea of an East Asian community is not a new one, and the East Asia Economic Cooperation (EAEC) has gained considerable influence in the debate over Asian values and the concept of a distinct East Asian community. ASEAN

Plus Three is dealing with Asian values and social behaviour on the one hand and impressive economic performance on the other, which led to controversy over the modalities of cooperation. Nevertheless, there are great diversities, historical grievances and some current contradictions among the countries of ASEAN +, although the region has gradually built up common interests in the areas of economy, politics, security, society and culture, which constitute a foundation for East Asia regionalism.

The Chiang Mai Initiative (CMI), adopted in May 2000, indicates a move towards greater East Asian self-reliance in financial liberalisation and monetary policy. The CMI was the first significant move toward a more autonomous and self-defined regional handling of monetary and financial affairs. It is an important step towards regional currency stability. However, this trend has been eclipsed by the rapid proliferation of bilateral, trans-regional and sub-regional preferential trade agreements (PTAs) that are contrary to building a collective East Asian identity based on closer cooperation among East Asian states. Apart from bilateral arrangements, these PTAs extend across oceans to include the USA, Canada, Mexico and Australia. In trade issues, therefore, the approach to regional cooperation encompasses the wider Asia-Pacific region instead of the narrower 'East Asian community'. Future financial and monetary liberalisation may be a difficult barrier for countries like Myanmar that are not economically sound

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in comparison with the large economies of the region.

The ASEAN norms of voluntary action, non-interference, informality and consensus are generally accepted across the whole region. These ASEAN ways are a major barrier to community-building in East Asia because of participants' unwillingness to sacrifice autonomy for collective action. However, the general objective of the ASEAN Regional Forum (ARF) is to develop a more predictable constructive pattern of relationships for the Asia-Pacific region with the aim of enhancing political and security cooperation to ensure lasting peace, stability and prosperity. ARF is characterised by diplomatic negotiation, non-coercive action, constructive engagement and preventive diplomacy.

The concept of the Asia-Pacific community attained greater prominence as a result of the Asia-Pacific Economic Cooperation (APEC) forum. Clearly, the APEC and ASEAN + concepts are socially constructed and serve different political and societal purposes. But Japan is considering the establishment of an East Asia free trade zone to include Hong Kong and Taiwan. It could be extended to Australia, New Zealand and the United States in the future.

The Asia-Europe Meeting (ASEM) and APEC are institutions of inter-regional cooperation that are different from each other in respect of membership, goals, political leverage, institutional structure etc. Nevertheless, they share one major characteristic: both institutions operate on the basis of the so-called ASEAN norms. Thus the ASEAN norms play an important role in the process of community building, although this role is not especially positive.

With active support from China, Japan and the Republic of Korea, ASEAN member countries initiated the ASEM process for East Asia to engage the European Union,

especially in economic cooperation, human resource development and transfer of technology. ASEM is a mirror of wider EU-Asia relations. APEC and ASEM are often assessed by their effectiveness/efficacy. ASEM covers a range of areas and issues such as the fight against transnational crime and terrorism, child exploitation, reform of the UN, strengthening of the WTO, assuring world peace, peace on the Korean peninsula etc.

Although these regional associations are diverse, dealing with region-wide and international issues such as environmental preservation, energy efficiency, trade liberalisation, anti-terrorism and enlargement of membership, there are many internal issues in every member country. In EU-ASEAN dialogue through ASEM, the issues of human rights, displaced persons and democratisation in Myanmar continue to be matters of grave concern as the EU pursues diverse policies towards individual countries in Southeast Asia. Since the restoration of democracy in Myanmar has been the priority US policy objective in Southeast Asia, the US has consistently supported democracy activities and organisations through advocacy efforts, public diplomacy and scholarship programmes both inside and outside Myanmar. Similarly, the EU expanded its measures to promote democracy and human rights. In 2003, it expanded its existing visa and travel restrictions and its asset freeze list to include a broader group of Myanmar citizens who benefit from the oppressive policies of the present regime. In 2004, the EU renewed measures, including a ban on extending credit to a list of state-run enterprises and a more restrictive visa ban, while the majority of ASEAN members continued to consider events in Myanmar as an internal matter. Both the EU and the US voted against assistance to Myanmar by international financial institutions.

These measures hampered, more or less,

the efforts of the State Peace and Development Council (SPDC) in the socio-political environment in Myanmar. It is true that democratisation or the 'road map' has a long way to go, but arms for peace negotiations between the SPDC and various insurgent groups, the convening of the national convention to draft a constitution, drug abuse control efforts, efforts against trafficking in persons and participation in various regional organisations are positive factors for Myanmar in regional and national development. These development efforts will be accelerated if there is assistance and support from international and regional groupings. Moreover, there has to be transparency in clarifying and defining the root causes of so-called displaced persons and the relocation process in Myanmar so that international and regional bodies clearly understand national development plans for urbanisation and industrialisation under which residents are moved to new locations.

Providing humanitarian assistance channelled to international non-government organisations (INGOs) and civil society is a good idea of the EU. It is also important that such INGOs are

genuinely working for community development within and outside country. So-called INGOs in border areas, working for insurgent groups and refugee camps, hampered national modernisation efforts and restoration of domestic peace.

In the context of health care, the withdrawal of the Global Fund for AIDS, TB and Malaria and liquidation of foreign direct investment due to political reasons are the hardest blows for the local community, especially in fighting the spread of communicable diseases. Because Myanmar is a country in transition, social development has to rely more or less on external assistance. Therefore, there are challenges ahead for Myanmar in the process of regionalisation directly or indirectly concerned with internal stability and the regional environment. If regional organisations in which Myanmar is a participant provide positive understanding, Myanmar's efforts for democratisation and national development will be speeded up. No doubt it will also lead to an integration that brings the countries of the region together to live peacefully and prosperously through cooperation.

Challenges and Prospects for the Future of ASEAN-EU Relations

Report by the delegation of European participants*

The Background

For over a decade, ASEAN-EU relations were strained by an ongoing disagreement over how to react to the political situation in Myanmar. While the Association of South East Asian Nations (ASEAN) has developed a policy of 'constructive engagement' based on non-interference, non-discrimination and consensus, the European Union has opted for a policy of criticism and sanctions from which, according to the EU Council Common Position of October 2004, only humanitarian aid and certain areas of development aid are exempt. A loosening of these restrictions is offered on condition that the Myanmar government lifts the house arrest of opposition leader Daw Aung San Suu Kyi and grants the opposition, above all the National League for Democracy (NLD), more political rights.

In view of the continuing political stalemate, it seems to be clear, however, that the sanction policy has not achieved the outcome sought. Instead of fostering reform, this isolation has only reinforced the siege mentality of the military government. What is more, it has contributed to the impoverishment of the population at large,

thereby eroding human resources and destroying, rather than creating, the preconditions for economic development and political change. With the humanitarian situation deteriorating, the sudden withdrawal of the UN Global Fund has deeply disappointed many policy makers in Myanmar. The fact that the EU-led Three Diseases Fund is to fill this gap might open an opportunity for the EU to be involved in Myanmar's reconsolidation process and to help to create the preconditions for change.

In 2006, the country was visited by UN Under-Secretary General Ibrahim Gambari, who was scheduled to return later in the year. In September, the UN Security Council also voted to place the situation in Myanmar on its agenda and to receive regular reports on the subject. Later in the year, the national convention preparing a constitution was scheduled to resume its work as a key element of the proposed Road Map to Democracy introduced by the government in August 2003. Since 1989 the government has also concluded ceasefire arrangements with most of the armed ethnic resistance groups, thereby moving further towards national reconsolidation.

The Aim of the Workshop

As the issue of the political conditions in Myanmar has been such a stumbling block in improving relations between the

member countries of ASEAN and of the EU, an unofficial workshop was organised in Yangon on 19-20 September. The

* Participants in the 19-20 September 2006 workshop in Yangon: David Fouquet, director, Asia-Europe Project Brussels; Jasmin Lorch, researcher, University of Freiburg; Dr. Paul Pasch, representative, Friedrich-Ebert-Stiftung.

discussions, which were very frank, cordial and productive, commenced with no preconditions. They were consequently conducted in an atmosphere of mutual respect and equality.

Against this background, the aim of the workshop was twofold: firstly, to look for common ground and to identify areas of possible cooperation and assistance that can be dealt with even under the current circumstances; secondly, to develop concrete strategies and policy recommendations focusing on how the Myanmar as well as European governments could facilitate cooperation in such areas of common interest.

To lay the foundations for reaching this aim, the workshop focused first on

assessments of the relations between ASEAN and the EU and of the challenges facing the interregional cooperation forums of ASEM, ARF and ASEAN+. The underlying purpose of these assessments was to gain a better understanding of Myanmar's role in and its perceptions of these institutions. They were followed by a briefing on developments in Myanmar in general and perspectives for the Road Map to Democracy in particular to get an insight into the meaning and complexity of the national reconsolidation process as seen by national policy makers. The two final sessions of the workshop focused on finding common ground and developing concrete policy recommendations to foster ASEAN-EU relations and Myanmar-EU relations alike.

General Setting and Introduction

There was insistence that both sides were brainstorming for common ground for practical, concrete areas of possible cooperation despite the existing strains. One of the hosts stressed that they 'fully understood the concerns of Europe', that they 'were not oblivious to the concerns of Europe about the Road Map to Democracy'.

One European also stated that Europe should be seen as 'a neutral, benevolent and reliable partner', that 'past policies had not produced the desired policy' and that an unofficial dialogue might be beneficial.

Another underlined that 'if we don't talk together, we don't understand each other', but added that 'many of us are dissatisfied that political conditions exist that have led to sanctions'. But he added that 'the EU Common Position is not eternally on the books ... The EU is not inherently hostile to Myanmar'. It was explained

that the EU policy was composed of three 'pillars', involving sanctions and criticism, dialogue and exploration of common ground and delivering assistance in certain sectors.

It was also emphasised that the EU was a soft power with 'no aircraft carriers' and placed emphasis on development aid; as such it had, for example, been requested to become involved in the Aceh peace process in Indonesia.

Technical assistance and capacity building were continuously referred to as needed by the country. It was pointed out frequently that the EU Common Position on sanctions exempted possible assistance and cooperation in health, education and social and environmental areas. There were numerous references to the ethnic diversity of the population and the extended period of conflict involving some of these groups, sometimes with outside assistance.

The ASEAN, ASEM Context

As an introduction to the discussion, there was considerable attention devoted to the general role of ASEAN and ASEM and the prospects for productive use of these mechanisms.

Following the ASEM encounter in Helsinki the week before the visit, the EU side noted that officials would meet again at gatherings scheduled for early 2007 of ASEAN and ASEM foreign ministers in Germany, in Nuremberg in March, for the 30th anniversary of their relations and in Hamburg in May, when that country assumes the presidency of the EU. During that time the EU might be expected to sign the ASEAN Treaty of Amity and Cooperation, thus qualifying to participate in the East Asia Summit as an observer.

One local speaker observed that ASEM had provided 'insufficient results' although the foreign minister had met with the EU troika in Helsinki. It was noted that he had expressed gratitude to the EU leadership for creating the new Three Diseases Fund to replace the withdrawal of the UN Global Fund. There had been criticisms on human rights and on a project concerning prison assessments, which he said he would look into. He had also recommended that European diplomats in the country or region take part in organised field visits to the country rather than relying on one-sided information. Our contacts kept repeating that the ASEM process should not be country-specific and that the ASEM had missed an opportunity to really deal with Myanmar and find common ground.

There were repeated references to the belief that EU-ASEAN relations in the past had been held hostage to the question first of East Timor and of Myanmar, by first the Portuguese and later Britain and other EU members.

A number of speakers felt that they had been discriminated against by the EU, which had a double standard that considers deficient democracies such as Cambodia, Laos and Vietnam as partners, but not Myanmar, which is affected by economic, financial and visa restrictions. 'You may not like the military government, but what about the people?', asked one.

The ASEAN Charter work was of considerable interest to both sides, with the suggestion that Myanmar should be interested in this process and in the prospects of ASEAN perhaps transferring resources to its poorer neighbours. The prospects of an East Asian FTA were also touched on.

It was also noted that the ASEAN 40th anniversary meeting in 2007 would be 'people-focused and seek to address people, who are the shareholders, owners'. It was added that the ASEAN Charter would be 'bold and visionary and people-focused'.

Following discussion on the ASEAN policy of non-interference, one host noted that their military is sensitive and suspicious about outside interference since in the past the US, China or even Thailand and India had given aid to forces threatening the country, in what was termed the world's first Islamic insurgency at the country's northeastern border. There was also a constant emphasis on bad news from the country. He proposed some means of overcoming such misunderstandings, by military-to-military relations to build capacity inside the country, underlining that in the past military personnel had been trained in the US or Germany but now they were being trained in China, noting that 'you can see the result in our understanding of western democracy'. He also noted that even the US military attaché was still at his post while the EU had

withdrawn its defence attachés. Before the coup in that country a few days later, they had noted the positive effect of western training on the Thai military. But another participant stated that some training for Myanmar army personnel had been conducted in India on general peacekeeping activities, including humanitarian law and other subjects.

It was suggested that at first the emphasis might be on cooperation where there were no conflicts of interest, such as health, education and environmental issues, while not forgetting others as confidence is built. Closer involvement by Myanmar participants in the activities of the Asia-Europe Foundation when possible was also frequently recommended.

Internal Political Evolution

A number of local speakers dealt with the recent historical evolution of the country, especially the Road Map to Disciplined Democracy and the national constitutional convention, whose next session was scheduled to begin 10 October after an interruption of some nine months. Most members are keen to have a constitution compatible with the practice of democracy, it was stated. This work should be completed soon, since there existed agreement on about 70 per cent of the basic principles. This would be followed by the actual drafting of the constitution, a referendum on the constitution and national elections.

Among the concepts cited as vital issues are national unity, bringing armed insurgency to an end and a genuine multi-party system. One speaker stressed that the objective of the process and the entire seven-step road map was 'a genuine

disciplined democracy ... a modern democratic state' that involved a constitution 'compatible with the practice of democracy', a referendum on the constitution, fair elections and a parliamentary session. Another referred to 'a genuine multi-party' system.

The national convention on a constitution is a coalition of the willing, according to one European team member. The process, which began in the 1990s and was interrupted and subsequently boycotted by the NLD and others, has been heavily criticised from the outside. It is part of a process seen in western eyes as reconciliation, but inside the country as consolidation. It was also pointed out that during this process, federalism was 'a dirty word', but there were aspects of federalism included, including seven ethnic states and seven autonomous divisions.

Inside the Constitutional Process

Since several participants in the September dialogue were members of the national convention, scheduled to resume in the near future, the constitution was discussed extensively at various senior, participant and personal levels. The participants reported that they spend all week at a distant former military base to concentrate on the details in plenary and special commissions. While past sessions

were said to have agreed on most of the guiding principles regarded as the most difficult, it was indicated that the session beginning in October could be longer than the previous ones to try to complete the entire process. It was described as a document that takes into account the relations between central and local authority, the role of the judiciary, human and individual rights, freedom of

expression, the role of the armed forces and other crucial issues.

It was also explained privately that the participants constantly refer to other documents and constitutions, such as the UN Charter, the US or the EU draft constitution as references for their work.

One participant expressed 'wariness' about the lack of a firm timetable for reaching the objective of the road map despite the good will to implement it step by step. 'I don't want them to be baby, wobbly steps, or leapfrogging long steps without taking into consideration the complicated situation we have here. If the steps are not correct strides, it will be dangerous. They have to be steady, sustainable steps but it has to be continuous. I'm a little wary; it is 75 per cent complete, eight of the 15 items, but I'm not aware of a time frame. Personally,

I would like to have a time frame strictly adhered to, although it may not please foreigners.' But the participant was 'worried' that if the work of the convention or the subsequent referendum and election turn out to be lip service only, Myanmar may be marginalised further. It was noted that '[although] we will not finish the seventh step in the road map by 2007, we hope the EU will understand and help the people'.

Some of the European delegation said that a timetable would be helpful for EU acceptance, that the military could decide quickly and that 'it's necessary and very clear that solutions cannot be found if important people do not participate'. Another noted that elections and the cessation of hostilities were not enough, but that good governance across a spectrum that includes peace, poverty alleviation and other steps was necessary.

Beyond Perceptions, Suspicions

One local speaker complained that in relations between stakeholders, opposition and outsiders, outsiders did not see the military as a partner and never recognised any internal reforms as progress, seeing them rather as weakness and a reason to ask for more concessions. He said that these forces wanted regime change or to dismantle the military with false accusations of rape and crimes, which were regarded as provocation. The military saw foreigners as part of a conspiracy. 'We have to change attitudes towards each other. We understand the EU concerns about human rights, but we do not see the EU as an honest broker because of its support for the NLD, which felt it did not have to compromise. The EU has to deal with both sides. There are no black and white solutions to the problems in our country.' He mentioned the request for war crimes tribunals as one example.

Another remarked that 'national unity and bringing to an end the armed insurgency are vital issues for any government—past, present or future. The vision and mission of the state are to maintain and stabilise the state'.

Regarding civil society, the opinion professed was that while some are responsible and can contribute a lot and there is an understanding of their valuable role inside the country, some are politically motivated.

One European also noted that EU policies on sanctions might have been absolutist and simplistic, but that its engagement could also reinforce and legitimise authoritarianism. He also remarked that NGOs and other outside forces might have encouraged overconfidence by rebels and dissidents.

Views on Economic Conditions

Macroeconomically, it was said, a market-oriented economic system had been introduced. It was agriculture based, with the Millennium Development Goals, such as primary education, empowering women, addressing child mortality, private investment and openness to foreign direct investment being stressed. But FDI was still low, with Singapore, South Korea, Thailand and China the main investors, based on certain data. Guiding principles were said to be balanced growth, improved quality of life, health and nutrition, poverty reduction, richer cultural life and globalisation. Business, SMEs, roads, schools, social sector, education, and universities were again underlined. Considerable emphasis was being placed on agricultural reform, mining and tourism. Agriculture in 1991-92 accounted for 47 per cent of GDP and in 2003-04, 51 per cent of GDP and 18 per cent of total exports. Construction of dams and water pumping stations was cited, as were the establishment of 18 industrial zones and plans for 24 zones including universities.

One European commented that the figures provided 'stress only on hardware', but not schools, students, the quality of education or other indicators.

But examples cited included the fact that there had been only one bridge across the Irrawaddy and now there are eight, and

there are motorways. The achievements were seen as quite remarkable in view of the fact that the country has received virtually nothing in overseas development assistance in recent years.

A number of representatives from the private sector were also present and requested more European engagement and involvement in the economic development of their country. One noted that virtually the only outside interest was in the timber, oil and gas sectors. Another said he could understand a policy of sanctions and dialogue coexisting, but would hope to see more dialogue. He also remarked that western sanctions did not affect the elites: 'They never suffer', he noted. One representative of the agricultural and processing sector, which was said to represent some 75 per cent of the economy, said that this was a true grass-roots sector, and underlined that the EU, US, Japan and others were helping through Mekong regional development projects that could be expanded as one means of reaching into the country. He also particularly singled out the need for human resources capacity building. Another noted the need for more and credible economic information from the national government and also underlined the need for education and training. A third stressed that sanctions, threats and pressure were not the ASEAN way.

Potential for Follow-up Action

Throughout the two days of discussions, a number of concrete or general suggestions were proposed by various speakers from both sides on a wide range of follow-up activities, projects and policies (see below).

A local speaker noted that Europe should

begin considering alternatives to sanctions. Such a policy could involve step-by-step measures. It was also emphasised that the future leadership of the country would come to a large extent from the military, and that there existed a need for assistance to create a true middle class to help stabilise the country.

Assistance with information media and libraries in rural regions was one suggestion raised in general, with assistance for broadcasting in ethnic languages, journalist exchanges and training specifically singled out.

The European side also noted that the recent position of the UN Security Council to place the country on the its agenda for reports could be turned to the general advantage. It was also suggested that the government could become more pro-active and, for example, invite a visit of the EU troika to get first-hand information. It was noted that there had been three such troika missions sent to North Korea. Another gesture recommended would be for the government to invite and provide security guarantees for private visits to the country to some representatives of the exile

community that support constructive engagement and critical dialogue.

With regard to the question of military cooperation between European Union member states and Myanmar, one has to recognise, within the limits imposed by European political considerations, that steps which acknowledged the mutual respect that exists for the military forces of both sides would be helpful. Even while the existing ban on the export of weapons to Myanmar remains in place, it might be worthwhile to explore lesser steps such as scholarships and training for middle-ranking or junior officers on subjects such as civil-military relations, law and capacity building. The non-official non-acceptance of troops from Myanmar for United Nations peacekeeping missions should be reviewed in order to give the Myanmar military international exposure and end its isolation.

Finding Common Ground

During the workshop, several areas of common interest were identified. While some can be dealt with even under the current circumstances, cooperation and European engagement in others might constitute more long-term options. In any case, the first step should be to focus on non-controversial areas where cooperation is possible even under the current sanctions regime. Particularly, health, basic education, capacity building for civil society and environment protection constitute key areas where cooperation could and should start from. These three areas are not only

off the Common Position's ban of development aid but also constitute sectors in which the Myanmar government should be willing to cooperate. By enhancing engagement in these areas, the EU could help to create the conditions necessary for the road map to succeed.

Looking to the long term, the goal should therefore be to:

1. move away from policies of sanctions and isolation
2. to a critical dialogue of mutual respect
3. and a policy of constructive engagement.

Policy Recommendations to the Myanmar Government

- In order to facilitate an EU policy change towards more development cooperation and engagement, the government should improve the working conditions for international organisations in the country and

consider inviting some international NGOs (back) in.

- To increase the absorptive capacity for aid, the government should build up or assign local counterpart organisations, which UN organisations and

international NGOs can work with.

- The government should reaffirm its commitment in the road map to a constitutional government and speeding up the work necessary to implement it. A serious proof of the government's sincerity would be setting up of a timetable for the road map; this timetable could be generous but should be strictly adhered to.
- Generally, the government of Myanmar should take a more pro-active role in foreign politics and international forums instead of withdrawing into its shell. For instance, it could offer the UN participation in international peace-building missions and share the experiences of peace-building in Myanmar with the international community. Indeed, the best way to deal with international criticism—as expressed, for example, in UN Security Council discussion, would be for the government actively to seek support from the international community to tackle its national development problems.
- A first step towards such a more pro-active policy could be to seek support from economically stronger Southeast Asian countries within the framework of ASEAN. In this regard, Myanmar should also study the EU financial transfer system as a possible role model.
- Myanmar should try to make better use of the ASEF activities. In the long term, this would help to strengthen the negotiating power of its national representatives in ASEM as well as in other interregional forums.
- Furthermore, Myanmar should take a more pro-active stance towards the EU, which by imposing visa bans on the country has also isolated itself. Against this backdrop, Myanmar should consider inviting the EU troika to visit the country.
- Finally, the government should consider establishing better contacts with the exile community and granting some of its members protection for information visits, since there are capable people in exile who might be willing to make a contribution to the national reconsolidation process.

Policy Recommendations to the EU and European Governments

- In general, the EU should focus on creating the developmental, economic and social conditions for evolution in Myanmar. At present, this means that the EU should help to create the conditions necessary for the road map to succeed.
- EU members should be encouraged to seek a wider interpretation of the provisions of the EU Common Position. As Article 5 of the European Common Position on Myanmar provides exemptions from the prohibition of development aid and economic assistance wherever sensitive issues of health and education emerge, European participants emphasised the need fully to make use of these exemptions to give humanitarian, social and economic support for democratisation. Proposals for action would have to be practical and reasonable given constraints on both sides. Areas identified included health, education and the environment, as well as poverty alleviation and effective governance.
- The EU should assume a policy of critical dialogue towards Myanmar. In actual fact, this would not contravene current EU policies. Sanctions and dialogue can coexist and might even be applied in such a way that their effects become mutually reinforcing if cooperation and sanctions are used on a case by case base and not according

to general and abstract guidelines.

- The EU should adopt the official name of the *Union of Myanmar* instead of using Burma or Burma/Myanmar. Similarly, the EU should consider using the term “national reconsolidation” instead of “national reconciliation”. While these verbal concessions are likely to help to build trust between the government of Myanmar and the EU, they also seem to be of minor importance in comparison to the real chances and challenges that are likely to arise from enhanced development cooperation and critical dialogue.
- The European Union should once more reiterate its support for the territorial

integrity of Myanmar as well as recognise the use of the country’s own self-designated name, Myanmar, rather than the awkward and archaic Burma/Myanmar. The highly emotional politicisation of the name—where the use of Myanmar is associated automatically with the military government and where the use of Burma translates into support for Daw Aung San Suu Kyi, the NLD and democracy—must be defused.

- The European Union and its member states should consider revising the common position in regard to limiting the broad sweep of the visa bans imposed.

WTO at a Crossroads: The Importance of the Doha 'Development' Round

Steffen Grammling*

The Doha Round has been in crisis since its suspension in July 2006, caused by a deadlock in the G-6—the US, EU, Japan, Australia, China and India. This stalemate led to a mood that not only the round but also the World Trade Organisation as a whole and multilateralism in general were in crisis. The mushrooming of bilateral and regional trade agreements and an increase of dispute settlement cases at the WTO were feared. Taking into account the fact that previous multilateral negotiation rounds faced similar difficulties and even lasted much longer, although having been less complex, this assessment seems to be exaggerated. The WTO is not only the forum for multilateral trade negotiations, but also fulfils various other functions, which are not so well known.

However, the Doha Round and the legitimacy of the WTO are interconnected, since the current multilateral trading system faces serious imbalances and is highly biased against developing countries. The WTO director-general, Pascal Lamy, expressed this in October in a statement before the European Parliament: 'It is as if economic decolonisation had had to wait 50 years after political decolonisation'. The attempt to correct these imbalances during the Doha Round has not materialised yet, partly due to unrealistically high expectations that were

raised in 2001 by baptising the round a 'development' round without explaining what that means. The deadlock of the negotiations coincides with other setbacks in international development policy, such as insufficient progress in achieving the Millennium Development Goals (MDGs). Together with the rising awareness of global problems, such as climate change, poverty, employment and security, this led to a sense of urgency that deep reforms of the global governance architecture are necessary. The WTO as part of this structure stands in various ways at a crossroads:

economically, in the sense that it has to adjust its rules to the changing world economic patterns and to the needs of developing countries, which constitute the majority of the WTO member states;

politically, in the sense that it has to reflect the interests of all member countries to guarantee its legitimacy;

structurally, in the sense that decision-making processes have to be reconsidered; and

ideologically, in the sense that in a globalised world, it will be increasingly difficult to ignore other dimensions, such as human rights, core labour standards or the environment, which require greater openness towards these issues by the WTO.

The WTO System

To comprehend the mandate and current systemic problems of the WTO, it is important to understand its nature, functions

and principles in general (WTO 2005b). The WTO is a multilateral organisation outside the UN system with full interna-

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tional legal status, established in 1994 by the Marrakech Agreement. It has *five* functions, although the negotiations of the Doha Round overwhelm the others in the public perception:

First, to facilitate the implementation, administration and operation of the WTO agreements that were negotiated and signed by member states and which provide the legal ground rules for international commerce.

Second, to provide the forum for governments to negotiate trade agreements that lead to trade liberalisation and the elimination of discriminatory treatment in international trade. Currently, the WTO is the host of the negotiations on the Doha Development Agenda (DDA), the first round of which was initiated in 2001 under the WTO.

Third, to administer the settlement of trade disputes according to the Dispute Settlement Understanding. The WTO is one of the few international organisations that possess an effective dispute settlement mechanism. This is a central pillar of the multilateral trading system and contributes to its stability.

Fourth, regularly to follow up national trade policies, contributing to the transparency of national trade-related regulations and policies according to the Trade Policy Review Mechanism.

Fifth, to cooperate with the International Monetary Fund and the World Bank as well as with other inter-governmental organisations that deal with trade-related issues to contribute to greater coherence in global economic policy making. Since trade influences many other policy areas, such as social policies, the environment and human rights, this will be one of the most important challenges in order to find effective solutions for global problems such as pov-

erty, unemployment and environmental degradation.

The WTO builds on four major principles that form the pillars of the system and create limits that WTO members should overstep only in exceptional cases. First, the most favoured nation (MFN) principle seeks to avoid discrimination between member countries. The objective is to prevent any discrimination based on origin or nationality. Second, the national treatment principle prohibits states from favouring domestic products over imported products. Third, the prohibition against quantitative restrictions (quotas) requires states to guarantee unlimited access to their domestic market in terms of quantity. Fourth, the observance of binding levels of tariff concessions (goods) and of specific commitments (services) means that minimum market access conditions are guaranteed.

All WTO decisions are taken by consensus, even though voting procedures do exist. A consensus exists if no member present at the meeting formally objects to a proposed decision. This principle complicates decision making, given the heterogeneous WTO membership. The WTO differentiates only between developed, developing and least developed countries (LDCs). This implies that emerging economic powers, such as China, India and Brazil are in the same classification and have the same rights and obligations as other developing countries such as Kenya, Bolivia or the Philippines, which are in very different stages of development. The differentiation of the developing country grouping is urgently necessary, since it is a major stumbling block to negotiations on special and differential treatment. However, such a reform is extremely difficult to pursue since it is a highly political topic. Nevertheless, the WTO needs to adjust its structure and decision-making mechanism to its larger and more heterogeneous membership. The

ASEAN decision-making practice of plurilateral agreements that are open for

others to join later might be feasible for some WTO areas.

The Doha Round

The Doha Round negotiations differ from previous rounds in both process and content. This constitutes a quantum leap and poses enormous challenges for all due to the following characteristics of the round:

Breadth: While the first five GATT rounds dealt exclusively with tariff reductions on goods, the Kennedy Round (1964-67) already included anti-dumping measures, and the Tokyo Round (1973-79) even other non-tariff measures and so-called framework agreements. The Uruguay Round (1986-94) negotiations constituted a landmark since they broadened the agenda to rules, services, intellectual property, dispute settlement, textiles and agriculture. All these issues are again part of the DDA, but complemented by other areas, such as trade facilitation. All issues are part of the 'single undertaking', i.e. all have to be signed together ('Nothing is agreed until everything is agreed').

Depth: The negotiations are characterised by the combination of tougher issues and a higher level of ambition, which is expressed by much wider and deeper market access commitments for industrial goods as well as probably substantial reductions for the bound level of trade-distorting subsidies in agriculture. This means that multilateral trade negotiations moved from shallow to deeper liberalisation.

Width: The GATT/WTO membership steadily increased from 23 developed countries in 1947 and became more heterogeneous. In the Uruguay Round, 123 members took part; the majority of them developing countries, which, however, lacked the necessary economic and political power to influence the negotiations decisively. This

changed dramatically during the Doha Round. Currently, there are 150 WTO members, which represent a variety of interests and which are in different stages of development. These interests are represented and pushed by groupings, such as the G-20, G-33, G-90, LDCs or the African Group, which are often dominated by emerging powers such as China, India or Brazil. Lamy mentioned that this made negotiations 'more vibrant and democratic—but also much more complex'. The groupings are aggressive, such as the G-20, or defensive, such as the G-33. All groupings call for more tangible, fairer results for their countries. While negotiations are still dominated by mercantilist negotiation logic and the economically powerful countries, i.e. the G-6, it has become impossible simply to dictate 'green room' decisions to the rest of the members. This change in power relations, however, also caused a power vacuum, expressed by a leadership problem: the US is not willing to take up the leadership role and is structurally weakened by biennial elections; the EU is eager to play an active role in negotiations, but is facing internal problems; Lamy is interpreting his role as 'facilitator' and 'mediator' more actively than his predecessor, but is cautious in dominating the process too much, given his limited mandate.

Transparency: While during the Uruguay Round many developing countries became aware of the (severe and sometimes negative) consequences that the final agreements had on their economies only after having signed the deal, this has changed dramatically. The World Bank, UNDP and think-tanks such as the Carnegie Endowment have regularly published calculations

of the possible outcome as well as potential winners and losers of the Doha Round. Moreover, civil society groups have been contributing to the discussions in a much more knowledgeable and constructive way than before. This has made the negotiations more transparent, and developmental aspects are continuously and strongly called for. However, it has become an obvious problem to convince the probable losers, which include most of sub-Saharan Africa and Bangladesh, to sign an agreement that they are expected to lose from.

Personality elements: Negotiations are not mechanical, but depend very much on personal contacts between the negotiators and the Trade Negotiation Committee, headed

by the director-general. In contrast to most of his predecessors, Lamy combines three important characteristics—his personality, trade negotiation knowledge and experience and political power. Furthermore, the negotiators seem to understand each other. Nonetheless, although these conditions seem favourable, the round remains stalemated.

In the following, the key negotiation areas of the Doha Round are explained, taking into account what is at stake for Asian countries. The so-called ‘triangle issues’—market access and domestic support in agriculture as well as non-agricultural market access (NAMA)—are crucial for a successful outcome of the round and stand therefore at the centre of the analysis.

Agriculture

Although agricultural products account for less than eight per cent of world trade, the negotiations on agriculture are politically highly sensitive and have been the major stumbling block of the DDA for two reasons. First, developed countries apply trade-distorting subsidies to their own export products and protect their markets by tariff peaks for products that are of special interest for developing countries. At the same time, farmer lobbies in developed countries are the strongest and most outspoken, recently even clashing domestically.¹ Second, many developing countries are net food importers and/or face high concentrations of employment in the agricultural (subsistence) sector, where productivity gains are more difficult to achieve. In Asia, this is especially the case for China, India and Indonesia, which are members of the strong G-33 alliance, which is pushing for exceptions for developing countries in the agricultural negotiations.

During the Uruguay Round, agriculture was included for the first time in multilateral negotiations (in bilateral and regional talks, this area has almost never been touched in detail) by the Agreement on Agriculture. Although it was a starting point, the systemic imbalances—trade-distorting export subsidies and domestic support, which are extensively applied by developed countries—were far from being corrected. One goal of launching the Doha Round was to ‘establish a fair and market-oriented trading system through a programme of fundamental reform ... to correct and prevent restrictions and distortions in world agricultural markets’ (WTO Doha Declarations, Article 13). Thus, the current negotiations in agriculture focus on especially three areas:

Market access: At the Hong Kong ministerial in 2005, it was decided to cut tariffs on a line-by-line basis (instead of the aver-

1. In the US, powerful agribusiness exporting companies called for more market access, whereas domestic commodity groups wanted to maintain their high domestic support payments, fearing increased competition.

age tariff reductions approach of the Uruguay Round) and by the so-called Swiss formula, which means steeper cuts on higher tariffs, i.e. 'harmonising' the rates. This implies that, in principle, countries can no longer shield their highest tariffs. The US and the Cairns Group of agricultural exporting countries, which includes Malaysia, Pakistan, the Philippines and Thailand, call for steep cuts here. The EU and the G-10 of net food importing countries with highly protected agricultural sectors, which include Japan, South Korea, Switzerland and Taiwan, oppose this strongly.

Developing countries call for exceptions for special products and a special safeguard mechanism, while developed countries seek exceptions for their sensitive products. These flexibilities are one of the most contentious issues and could undermine the developmental impact of the round. One of the strongest groups is the G-33, seeking to shield important agricultural products from tariff reduction (special products) and to secure the flexibility to raise tariffs temporarily above bound rates in certain circumstances for food security, livelihood security and rural development needs (special safeguard mechanism). On the other hand, Thailand, which is the world's largest exporter of rice and rubber and a leading exporter of sugar, seeks—together with other members of the Cairns Group—to limit the possibilities of such exceptions since these countries look for larger market access for their products. This reveals the difficulty of assessing the developmental aspect of the round. Which developing countries shall be assisted more, those with a high share of subsistence farmers who need protection or those dominated by a large group of small farmers depending on exports?

Export subsidies: The Hong Kong Decla-

ration states that export subsidies should be eliminated by the end of 2013 and major developing countries pushed to phase them out as soon as possible without being asked for commitments to market access. The Indian commerce minister, Kamal Nath, stated in July 2006: 'Trade-distorting subsidies should not be there to start off ... If developing countries are asked "please pay us to remove these distortions", I'm afraid that's not going to work'. Indeed, export subsidies are highly anti-developmental since they can be used by rich developed countries, while most developing countries cannot afford to use this trade instrument. On the other hand, the DDA negotiations on how to reduce more disguised and hidden ways ('indirect subsidies') in the form of food aid, export credits and state trading enterprises are a step forward compared to the Uruguay Round.

Domestic support: The WTO's Agreement on Agriculture distinguishes between two broad forms of domestic support. On the one hand, non-trade-distorting subsidies ('green box'), which are allowed without limitations, although experts hint that some of these subsidies are also trade-distorting.² On the other hand, three categories of trade-distorting domestic support are referred to: the aggregate measurement of support ('amber box'), which is linked to interventions on agricultural prices, considered most trade-distorting and therefore intended to be banned almost completely; *de minimis* support, which means limited amounts of domestic subsidies (in relation to the value of total agricultural production) that are still allowed; and 'blue box' subsidies, which are supposed to be linked to setting limits on production. Total trade-distorting subsidies comprise all three types. Negotiations in this area have been the most contentious, especially due to the different positions of

2. This was even recognised officially by the WTO in the decision of the dispute settlement case on cotton, which was won by Brazil against the US in September 2004.

the EU and the US. It was discussed slashing them by 60-70 per cent and placing caps on the subsidies that any individual product could receive. However, the proposals on the table lead to real cuts of trade-distorting subsidies for neither the EU nor the US. On the contrary, both would even have the flexibility to increase their current subsidy spending slightly. Given that developing countries would increasingly have to open their agricultural markets at the same time, the result would be further distortions instead of correction of the existing ones.

The potential gains and losses of trade liberalisation in agricultural markets were controversial worldwide. A much recognised study of the Carnegie Endowment suggested that the benefits of agricultural trade liberalisation would mainly flow to rich countries, while developing countries as a group would even lose slightly (Polaski 2006). In Asia, only Thailand is expected to win, while Vietnam and China are supposed to

lose. This is because many poor countries are net food importers (and world market prices for agricultural goods are expected to increase slightly), because they lose relative advantages which they enjoy under preferential trade agreements (preference erosion) and because their small-scale subsistence farmers offer products that are uncompetitive on the world market. This scenario would be probable if tariffs were cut across the board, domestic support not reduced in real terms and developed—but also developing—countries were allowed to shield their sensitive and special products, which are of export interest for (other) developing countries, such as rice or sugar. Moreover, Bangladesh is likely to lose from any agreement unless it is granted special and differential treatment. In this context, the study comes to an interesting result, arguing that exceptions for developing countries would help countries such as India and Vietnam to gain from liberalisation, while other countries would face only minor reductions of their expected gains.

Non-Agricultural Market Access

Industrial policy is a crucial element in a country's development strategy, coming from an agriculture-dominated and moving towards an industry- and service-dominated economy. Increased manufactured output provides new jobs, and new investment—both domestic and foreign—leads to technology transfer and productivity gains. Most Asian tigers used an active industrial policy, applying high import tariffs and export subsidies. Both instruments are allowed only in exceptional cases under current WTO law, limiting the possibilities of imitating this once successful strategy. After eight GATT negotiation rounds, average tariffs for industrial goods are now at very low levels in developed countries, i.e. about five per cent, and at around 30 per cent in developing countries. However, there remain some tariff peaks, high tariffs

and tariff escalation, especially on export products of developing countries, which discourage them from increasing value added in their production chains. Moreover, non-tariff barriers such as restrictive rules of origin are a major market access barrier in developed countries' markets.

The DDA negotiations in the area of NAMA aim at reducing or eliminating 'tariff peaks, high tariffs, and tariff escalation; as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions' (WTO Doha Declarations, Article 16). At the Hong Kong ministerial, it was agreed to slash tariffs also according to the 'Swiss formula', which cuts higher tariffs more than others. A coefficient should define the

level of ambition, which was decided to be lower for developing countries, while least developed countries are not asked to make any commitments in any negotiation area. Since many developing countries still have relatively high tariffs, the Swiss formula results in a higher percentage cut in their bound tariffs than for developed countries. Civil society organisations criticise that this is against the 'less than full reciprocity' principle set in the Doha Declarations. They argue that developing countries are asked to cut their tariffs on a line-by-line basis in one round, something that developed countries achieved progressively on an average basis during eight rounds over 40 years. The flexibility that developing countries would be granted to shield some products—a general exemption for five per cent of the national tariff lines or lesser reduction commitments for 10 per cent of the national tariff lines—is regarded as too low to allow space for future industrial development.

The study of the Carnegie Endowment suggests that among the developing countries, 90 per cent of the gains of a successful Doha Round would come from the liberalisation of trade in manufactured goods. Among the developing countries, the biggest winner would be China, followed by other Asian countries before Latin American and African countries. The study argues that trade liberalisation for manufactured goods increases the demand for unskilled labour in most developing countries. However, due to the abundant supply of labour and decreasing world prices, wages would not rise. While most ASEAN members and China are expected to benefit from an increased demand for unskilled labour, Bangladesh would lose jobs in manufacturing industries.

In the NAMA negotiations, three important issues are relevant for most developing countries. The first is the burden of adjustment costs in the form of job and tariff losses. Restructuring of the industrial sector by productivity growth and techno-

logical change is necessary to increase incomes but often leads to temporarily higher rates of unemployment. However, in many developing countries industries are still in their first stages and often not yet competitive on world markets without supportive trade policy instruments. Since the NAMA proposal could lead to a cut in applied rates in countries such as India, Indonesia or Malaysia, job losses might become a problem, which is even worse if there are no functioning social safety nets and retraining programmes. Moreover, a cut in applied tariffs would lead to revenue losses, while tariffs sometimes constitute a substantial part of the national budget. In addition, reform towards a value-added tax system is cumbersome, requires strong institutions and could replace the loss in tax revenue only partially. However, the net effect of lower tariffs is not clear *ex ante* since they also trigger higher import volumes and reduce the incentives for corruption and smuggling at the same time. Even if the net effect were negative, it would not constitute a national welfare loss but rather a redistribution of burden between producers and consumers.

The second issue is that countries which are part of the general system of preferences (GSP) or other preferential market access programmes fear that their profit margins will decrease (preference erosion) and that they even might lose their competitiveness. While this might be true, one has to take into consideration that preferences should be used on a temporary basis only, and no country should build its economic strategy solely on unilaterally granted preferences.

Third, NAMA is very much linked to industrialisation policies and the broader development strategies of countries. In the literature, this relationship is referred to as the discussion on policy space (see, for example, UNCTAD 2006). This concept argues that developing countries should not

be denied the flexibility of using instruments of an active industrial policy, which today's developed countries applied earlier to pursue their development path. Since WTO law already restricts the use of many such trade policy tools, e.g. quotas or export subsidies, tariffs gain in importance. These, however, are to be reduced significantly according to the NAMA proposals. Civil society organisations point out that the principle of 'less than full reciprocity' is not

respected, since most developing countries are required to reduce their tariffs by more percentage points than developed countries. While this might become a problem for a number of developing countries in Latin America and Africa, many Asian countries would face fewer adjustment costs and could even gain from greater market access since they have already liberalised their trade regimes and currently apply comparatively low average tariffs.

Services

The services sector is growing dynamically in both developing and developed countries. It constitutes around 70 per cent of world gross domestic product and already about 45 per cent of GDP of LDCs. Some services, such as distribution, construction and social services, are labour intensive and an employment source. Together with telecommunication, transportation and financial services, they facilitate a country's exports, since they provide the necessary infrastructure.

The General Agreement on Trade in Services (GATS) of 1995 sets the multilateral framework for trade in services and requires member states to engage in successive negotiation rounds that aim at progressive liberalisation. The negotiations started in 2000 and were included in the DDA as a 'built-in agenda'.

The negotiating logic is different from that applied in the other areas and more development friendly due to its rather bottom-up approach. This means that a developing country can decide both whether to liberalise a service sector and to what extent,

thereby posing restrictions and limits for liberalisation. However, once a country has committed itself to liberalise a sector, it is difficult to reverse this obligation. The negotiations are dominated by a bilateral request-offer process, in which a country might ask another WTO member to open up certain services sectors. Of special importance for developing countries in general and Asian countries in particular, such as India (computer scientists) or the Philippines (nurses), are the negotiations on Mode 4, which regulates the movement of natural persons. However, the offers presented until now have been very few or of low quality, since trade negotiators of important recipient countries, such as the US and EU, do not have the authority for migration issues, which often belong to a country's security policy. This makes it almost impossible for these countries to submit offers in this area. On the other hand, developing countries are not willing to submit offers in other service areas without the perspective of getting commitments on Mode 4. This dilemma is one of the reasons for the slow progress in the negotiations on services.

Trade Facilitation

At the Singapore ministerial meeting in 1996, four issues were put on the agenda for further negotiations: investment, com-

petition, government procurement and trade facilitation. While in 2003, the Cancún ministerial failed partly due to di-

vergent positions on these issues, in August 2004 WTO members agreed only to negotiate trade facilitation. This area is of importance for developing countries since it is closely linked to the development aspects of the round. The objective is to improve and accelerate the movement, release and clearance of goods by modernising customs offices and procedures. Furthermore, commitments to new investment in border infrastructure are proposed, while

developing countries will be granted special and differential treatment as well as additional technical assistance. Trade facilitation is one of the few areas in which the business community (particularly in developing countries) is pushing strongly for a successful completion, since the lowering of trade-related transaction costs has a direct positive impact on their profits and increases the export competitiveness of their products.

WTO's Mandate and Instruments for Development

At present, about two-thirds of the 150 WTO member states classify themselves as developing countries. Around 30 of the 50 LDCs according to the UN classification are WTO members. Moreover, some developing countries are becoming important economic players, which play their role in the WTO more actively and consider trade as an instrument for their development. This explains why the linkage between trade and development has become increasingly important in general and for the legitimacy of the WTO in particular. The Marrakech Agreement refers in its preamble to 'sustainable development'. This usually includes five dimensions: the political, economical, social, ecological and cultural. While the WTO obviously has an advantage to engage in the economic area, the other dimensions should not be left aside (which is mostly the case at present), since only the interplay of all dimensions makes possible a successful outcome.

Moreover, there are at least three different levels at which sustainable development has to be taken into account: the multilateral, regional and national. On all levels, the principles of coherence, efficiency, transparency and ownership are critical for success. At the global level, the Millennium Development Goals (MDGs) build the overarching framework, in which trade makes a contribution to goal eight, devel-

oping a global partnership for development. At the national level, the MDG implementation plan and poverty reduction strategies are the most important reference documents. In the latter, trade is only seldom mentioned, which is an indicator that either trade is not regarded as an instrument for development yet or the country faces a lack of policy coherence. Thus, one key challenge is to mainstream trade into these core development strategies and recognise the potential of trade as one factor for development.

When the Doha Round was launched in 2001, developing countries were promised that their interests would be at the heart of the round, as stated in the Doha Declarations in Article 2: 'The majority of WTO Members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration'. In particular, two areas of the work programme were directly related to developing countries at the launch of the round: the implementation-related issues and concerns; and the special and differential treatment. In none of these issues has much progress been made so far; rather, they were put aside. There is increasing criticism that labelling the round as 'Development' had led to unrealistic expectations. After his appointment as director-general in September 2005, Lamy tried

to put more emphasis on the development aspect by announcing the 'Geneva consensus'. The idea was that countries face different adjustment costs, and that the winners of trade liberalisation should compensate the losers in an adequate manner. Given the standstill in the critical negotiation areas, such as agriculture and NAMA, the development issues have become more prominent since the Hong Kong ministerial in 2005. The following explains the six most important instruments of the multilateral trading system that could make trade work better for development.

Special and differential treatment for developing countries. Many WTO agreements guarantee special provisions (mainly more time and better terms) for developing countries and LDCs. The decision of the GATT signatories in 1979 to allow exceptions from the most-favoured nation principle (the so-called 'enabling clause') was an early example of special and differential treatment. It allowed developed countries unilaterally to grant preferential tariff treatment in accordance with the Generalised System of Preferences to developing countries. Moreover, it permitted preferential regional arrangements to be concluded among least developed countries and did not require developing countries to make concessions that were inconsistent with their development, financial and trade needs. The GSP has been of special importance for those developing countries benefiting from it, while other developing countries rightly claim that the system discriminates against them. In general, the GSP is characterised by low usage rates due to strict rules of origin in preference-granting countries and low trade surpluses in preference-receiving countries.

Duty free and quota free (DFQF) access for LDCs. At the Singapore ministerial in 1996, the Plan of Action for Least Developed Countries was agreed on, which provided a number of activities and instruments in favour of LDCs. It included the

pledge from developed countries to grant LDCs improved market access. Since then, a number of WTO members have unilaterally abolished import duties and quotas on most (and sometimes all) exports from LDCs. Examples are the Everything But Arms (EBA) initiative of the European Union or the African Growth and Opportunity Act (AGOA) of the US. However, these programmes still exclude important LDC export products such as rice, sugar and bananas (EBA) or textiles (AGOA). At the Hong Kong ministerial, developed countries agreed to grant LDCs DFQF access to their markets for 97 per cent of LDC products. This obligation remains meaningless unless it is extended to 100 per cent, since it still allows developed countries to exclude the most important LDC exports. On the other hand, some larger countries, such as Japan or recently China, also offered to grant DFQF access to LDCs.

WTO Committee on Trade and Development. The WTO Committee on Trade and Development, with its Subcommittee on Least Developed Countries, has a wide-ranging mandate covering almost all aspects with relevance for developing countries. For example, it supervises if and how the provisions in favour of developing countries are implemented; it handles the notifications of the GSP; and it elaborates guidelines for technical cooperation. Moreover, it regularly analyses the developmental aspects of the DDA negotiations (WTO 2006).

Technical cooperation and capacity building. There are three main characteristics of the WTO's technical cooperation and capacity building: First, it aims at increasing the awareness among member states that trade is one element for poverty reduction and has to be mainstreamed into their national economic development and poverty reduction strategies. Second, while activities are directed at all developing countries in the WTO, priority is given to the

small, vulnerable and transition economies (which often have only one or two representatives in Geneva), as well as the members and observers without permanent missions in Geneva. Third, technical assistance must be delivered by the WTO and other international organisations within a coherent policy framework. In this regard, coordination with the Integrated Framework (IF) and the Joint Integrated Technical Assistance Programme (JITAP) is of special importance. To ensure the long-term planning of activities, secure and predictable funding is necessary and was improved by the establishment of the Doha Development Agenda Global Trust Fund in 2001 with a total annual budget of about 24 million Swiss francs.

Integrated Framework for trade-related technical assistance to least developed countries. The IF was established in October 1997 to assist LDCs in benefiting from the open, rules-based multilateral trading system. The core agencies are the IMF, ITC, UNCTAD, World Bank and WTO. It was first restructured in 2000 and has two objectives. The first is to mainstream trade into national development plans of LDCs. 43The second is to assist in the coordinated delivery of trade-related technical assistance based on the needs identified by LDCs. Two basic principles dominate the work of the IF: country ownership and partnership. By the beginning of 2006, 40 out of 50 eligible LDCs were participating at different stages of the IF process. Total

pledges to the IF amounted to around US\$30 million in 2005. Since the IF had various implementation problems, it was decided to expand its resources and increase its effectiveness. The elaborated recommendations for an enhanced IF were adopted in July 2006 by the IF managing bodies and should become operational, with a planned budget of around US\$ 400 million, at the beginning of 2007.

Aid for trade initiative. At the Hong Kong ministerial, the Aid for Trade initiative was included as a new working area in the DDA outside of the single undertaking. The purpose is to assist developing countries by building supply-side capacity and trade-related infrastructure. A WTO task force was established and its recommendations were approved by the General Council in October 2006. The recommendations highlight that Aid for Trade is no substitute for but a complement to a development-friendly outcome of the DDA. According to the WTO secretariat, the funds will be delivered unconditionally and as a grant. Civil society groups criticised that Aid for Trade was just a carrot to entice developing countries to sign a final DDA agreement. It certainly has a leverage effect, in particular since the initiative was started when the negotiations in key DDA areas were stalled. In this context, the beginning of 2007 will be decisive to judge the sincerity of the financial pledges, the alleged independence of Aid for Trade from the rest of the DDA and the feasibility of a more efficient use of the available funds.

Multilateralism vs. Regionalism³

Regional trade agreements (RTAs) are a fundamental part of today's multilateral trading system. The number and importance of preferential trade agreements have increased steadily since 1947 and

exponentially over the last decade (WTO 2005a). By 2005, there were more than 300 notified RTAs (of which around 170 were in force) and another 70 that were in force but not yet notified. Most of them

3. This section describes the relationship between multilateralism and regionalism in general. For the characterisation of regionalism in Asia see the article by Rahul Sen.

have been concluded since 1995. It is estimated that more than half of world trade is done under RTAs. The only WTO member country that has not sign an FTA yet is Mongolia, which, however, has applied for membership of the Asia-Pacific Trade Agreement.

More than 80 per cent of the RTAs are free trade agreements, which are quicker to conclude and require a lower level of policy coordination than customs unions, which require the establishment of a common external tariff and the harmonisation of external trade policies, implying a loss of autonomy of the contracting parties. Around 75 per cent of RTAs are bilateral free trade agreements, with increasing cross-regional coverage, while customs unions mainly depend on geographical considerations. A relatively new trend is the conclusion of RTAs in which each party is a RTA on its own, for example the EU-MERCOSUR trade agreement. These are, however, most difficult to negotiate. Many RTAs—especially those between developed and developing countries—contain ‘WTO plus’ provisions concerning both broader coverage, such as the inclusion of the Singapore issues or environment and labour provisions, and tougher regulations, such as stricter TRIPS provisions. The comprehensive trade liberalisation by RTAs is characterised by reciprocity, in contrast to the non-reciprocal system of preferences.

The rationale for RTAs is not solely, as might have been expected, trade, investment and broader economic considerations. It rather includes other foreign policy goals, such as political and security considerations, which sometimes might be even more important. Moreover, RTAs are regarded as insurance against possible failure of multilateral trade negotiations and as a sign of dissatisfaction with the typically slow progress in these negotiations. This seems to be proven by the fact that

their proliferation started during the Uruguay Round and is gaining force with the stalemate of the DDA. RTAs between major economic actors can have a domino effect on other countries, which occurred, for example, in Asia after the conclusion of the US-Singapore Free Trade Agreement. Finally, RTAs can help developing countries to implement domestic reforms and open up to competitive market pressures and can thus facilitate their integration into the world economy. This could also constitute leverage for openness and competitive liberalisation in international trade.

On the other hand, there are at least three risks of RTAs. First, developing countries usually have less bargaining power in regional than in multilateral negotiations. This leads to cherry-picking of issues by the major players, which typically try to exclude their sensitive areas, such as agricultural subsidies or domestic support. Given scarce negotiating capacity in many developing countries, RTA negotiations increase transaction costs, which have to be paid finally by the country’s taxpayers. Second, only some of the RTAs are notified under the WTO, which undermines the transparency and predictability of the multilateral trading system. Third, global trade patterns might be changed by RTAs, which often divert trade and investment instead of creating new trade flows, and which distract the attention from the multilateral trading system. Thus the question is how best to combine RTAs with the multilateral trading system.

The relationship between RTAs and the WTO is regulated by three provisions. Article 24 of the GATT clarifies the conditions for trade in goods that a customs union and free-trade area have to fulfil to be in conformity with WTO law; for example it provides for a “reasonable length of time” concerning the duration of RTAs, which should exceed 10 years

only in exceptional cases. Secondly, Article 5 of the GATS regulates the conditions for trade in services, such as the requirement of substantial sectoral coverage in terms of sectors, trade volume and modes of supply of the agreement. Thirdly, the decision of 1979 on Differential and More Favourable treatment, reciprocity and fuller participation of developing countries ('enabling clause') allows regional or global arrangements among less developed WTO member countries if they aim at mutual reduction or elimination of tariffs and non-tariff measures for their products.

Since 1996, the WTO Committee on Re-

gional Trade Agreements has worked on the surveillance of RTAs, which is critical given that the interpretation of the current regulations has been controversial and becomes more important now that almost all WTO members are parties to such agreements. Thus it was agreed to include the issue in the DDA, focusing on the clarification and improvement of the disciplines and procedures concerning RTAs, taking into account the developmental aspects. In July 2006, a draft decision was taken by the General Council, which provides for rules on the early announcement and notification to the WTO as well as on procedures to enhance the transparency of RTAs.

Conclusion

At the beginning of 2007, the Doha Round remains in crisis and the WTO remains at a crossroads in various aspects. While the WTO continues to fulfil its regular functions, the DDA negotiations will remain the focus of public perception and often be used synonymously with the organisation. One important link between the DDA and the WTO, which also increasingly defines its legitimacy, is the development aspect of the DDA. To achieve a development-friendly outcome, three factors have to come together. First, each member needs to be open-minded and flexible about finding a compromise to give consideration to 150 different development strategies and interests. This difficulty was illustrated by the example of the conflicting interests of Thailand as a leading agricultural exporter and India or Indonesia with an agricultural sector dominated by subsistence farmers. Second, the common denominator and necessary condition for a successful outcome is trade facilitation as well as technical assistance, capacity building and aid for trade. In this context, the year 2007 will be decisive to judging the sincerity of the

financial pledges, the alleged independence of aid for trade from the progress in the other areas of the DDA and the feasibility of a more efficient use of the available funds. Third, the resumed debate on policy space showed that a successful outcome of the DDA must allow developing countries enough flexibility in each negotiation area to pursue their development strategies. This is especially important in the 'triangle of issues', i.e. NAMA and agriculture, where the Asian emerging powers China and India will have to play a decisive role, together with other active members of the different negotiation groupings, such as Indonesia as the leader of the G-33.

Only if the round delivers a development-friendly outcome for the majority of its members will the WTO have enough legitimacy and support to regulate and reform the multilateral trading system in the future. Moreover, a successful DDA outcome would also exert a positive impact on the achievement of the MDGs and the global governance system as a whole. This might be another small step

towards the realisation of the concept of 'sustainable development', as referred to in the preamble of the Marrakech Agreement.

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Between Intensive Care and the Crematorium: Where Next for the Global Trading System?

Mark Thirlwell*

When the Doha Round of multilateral trade negotiations was suspended indefinitely on 24 July, apparently due to irreconcilable differences over the liberalisation of agricultural trade, it marked the latest crisis in a trade round that the *Financial Times*' Alan Beattie described as a 'deal doomed from the beginning' (24 July 2006). News of the suspension naturally prompted the media to question the world's trade ministers about the future of the round. While they were understandably reluctant to pen Doha's obituary, their assessments were nevertheless bleak. Australia's trade minister, for example, described the round as hanging by a thread. But perhaps the most colourful assessment was made by India's Kamal Nath, who judged that while Doha was not dead, it was nevertheless somewhere between intensive care and the crematorium.

The July 2006 suspension of negotiations may or may not turn out to mark the death of the Doha Round: the history of multilateral trade negotiations shows that trade rounds have often been marked by repeated crises and breakdowns in negotiations, before eventually a compromise is forged. Certainly, that was the experience with Doha's predecessor, the Uruguay Round (1986-1994), which ran for almost eight years and suffered collapses in Montreal (1988) and Brussels (1990) before finally reaching a successful conclusion in the creation of the WTO. Still, the decision to toss

the current trade round into the deep freeze will almost certainly mark a watershed for the future of the international trading system. Even a 'good' outcome for the faltering trade round—and at this stage a good outcome is almost anything short of an outright collapse—is likely to deliver little in terms of new market access when set against the scale of negotiating resources devoted to Doha. As a result, the appetite of the world's trade ministers for any repeat performance will be limited. One implication is that the era of giant, set-piece trade rounds like Doha and the Uruguay Round may well be over.

Achieving progress in the current Doha round has proved to be 'painfully difficult and has raised questions about the process itself', according to a report to the WTO's director-general by a consultative board of 'wise men.'¹ One doesn't necessarily have to be an advocate of the bicycle theory of international trade policy—which asserts that momentum is all, with the world either moving forward towards freer trade or sliding backwards into more protectionism—to view this lack of progress as a source of real concern for the future of the system. As the WTO's own wise men have pointed out, since the WTO is basically a negotiating machine, to the extent it becomes unable to negotiate effectively, or even is perceived to be unable to do so, its position becomes fragile.

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What Went Wrong?

As in a good murder mystery story, there are a multitude of suspects when it comes to identifying who or what undermined the Doha Round.² Prominent among them are a United States that seemingly preferred no deal to a modest deal, a European Union unable to accept significant agricultural reform and some major emerging markets reluctant to accept the reciprocity required by multilateral negotiations.

There were also significant structural difficulties facing trade negotiators, not least a capacity crisis for the multilateral system that is a product of the growing number of WTO members, the requirement for consensus decision making and the increasing breadth and complexity of trade negotiations.

The WTO's membership has expanded dramatically: from the original 23 signatories to the GATT in 1947, the number of member economies has risen to 150 with the recent accession of Vietnam, and more are on the way. The WTO is now heading towards effective universal membership, its members now accounting for more than 95 per cent of world merchandise trade. While this expansion is a symbol of the system's success, a greater number of members makes achieving consensus a more difficult and time-consuming task. This is even more the case since the rise in membership numbers has been accompanied by an even bigger increase in diversity. Originally, the GATT was basically a rich countries' club that focused on liberalising trade in industrial products. The expansion of membership to emerging markets and developing countries brings new interests and new constituencies into the negotiations.

Along with more countries, the capacity challenge is also more issues. The advocates of large trade rounds argue that big is beautiful: negotiating over a large package of measures has two potential advantages. First, with a sizeable number of issues up for discussion, there is the possibility of securing bigger gains. Second, it might be easier to reach an agreement if participants can trade off concessions they have to make in one area against gains they can secure in another.³ Yet the sheer size and complexity of trade rounds that are the ultimate outcome of this approach seem to be becoming increasingly counterproductive.

Not only are there more issues up for discussion, but the issues are often those on which it is difficult to reach agreement. Trade negotiators have already picked much of the lower hanging fruit, and that leaves the harder, more politically sensitive sectors like agriculture and services to be tackled. Not surprisingly, that makes for tougher negotiations.

So success—more members, more trade, more issues and greater diversity—has come at a cost: trade negotiations are tougher and take longer. And time is important. For example, the longer the time required to reach a successful result at the multilateral level, the more likely that trade ministers will end up looking elsewhere for politically visible 'deliverables'. Questions of time might also explain what appears to be the fading interest of the business community in international trade rounds: several press reports have cited trade negotiators bemoaning a lack of corporate interest in the Doha Round. Certainly, there is now a clear contrast between the accelerating pace of the international product cy-

2. For a more general discussion of the problems facing the global trading system overall, see Mark P. Thirlwell 2005. *The New Terms of Trade*, Lowy Institute Paper 07, Sydney: Lowy Institute for International Policy.

3. C. Fred Bergsten 2001. 'Fifty years of trade policy: the policy lessons', *World Economy* 24 (1).

cle—powered by the forces of globalisation—and the relatively glacial pace of trade negotiations.⁴ From the point of view of a corporate lobbyist, the cost-benefit equation for multilateral negotiations may be looking steadily less attractive than some of the alternatives on offer.

Along with the difficulties posed by success, the system has to cope with structural change in the global economy. In particular, the growing economic strength of emerging markets has quite naturally caused them to become more assertive negotiating partners, and hence less willing to accept a deal imposed by the major developed economies. For their part, the latter are becoming more reluctant to afford generous concessions to what they see as increasingly potent competitors in global markets. The reciprocal bargaining framework of WTO negotiations—under which domestic trade liberalisation is treated as a concession that has to be ‘purchased’ with similar concessions by the country’s trading partners—means that stalemate is always a potential risk. In the case of the Doha Round, while some emerging market economies and developing countries feel that rich country concessions on agriculture are overdue after the disappointments of the Uruguay Round’s supposed grand bargain, their counterparts in the developed world are reluctant to offer a substantive deal on agriculture in the absence of sig-

nificant progress in areas of interest to their constituents, such as improved access for services or investment to the dynamic emerging markets.

Finally, it seems likely that the twin decisions to give the round a focus on agriculture and on development may also have made the negotiations more difficult. In fact, a focus on agriculture makes a great deal of sense: the sector remains one of the most distorted in the global economy, and economic modelling suggests that significant reform has the potential to deliver very large welfare gains.⁵ Unfortunately, a major reason that agriculture is such a problematic sector is its immense political sensitivity: delivering significant gains in this area was always going to be extremely difficult.

What about the focus on development? Again, there was a fair degree of logic here, with the Doha Round seeking to offer something to those developing countries that felt the Uruguay Round’s focus on issues such as intellectual property and investment had advanced the interests of the developed economies while offering little in return. Yet the rhetoric of a development round has also been interpreted as providing a free ride for both the least developed countries and, at least in some cases, for emerging markets. This in turn has been a significant stumbling block given the current requirement for reciprocity in negotiations.

Does Doha Matter?

Does any of this matter? After all, one possibility is that even the complete failure of the round will turn out to have little or no adverse impact on international trade: Doha has looked increasingly unlikely to deliver much *additional* liberalisation, and

previous trade rounds have already lowered many of the most significant barriers to cross-border exchange, progress which the WTO will continue to defend through its dispute settlements mechanism.

4. Aaditya Mattoo and Arvind Subramanian 2005. ‘Why prospects for trade talks are not bright’, *Finance and Development*.
5. Kym Anderson and Will Martin 2005. *Agricultural market access: the key to Doha success*, Trade Note 23, Washington DC: World Bank.

Stephen Roach, chief economist of Morgan Stanley, penned a piece on 4 August, shortly after the suspension of negotiations with the title *Doha doesn't matter*. Roach argued that the 'fundamentals of IT-enabled globalization have become far more important than multilateral agreements in driving the global trade cycle.'⁶ He pointed out that during five years of multilateral negotiations that have as yet delivered no significant progress (the modest achievements announced after the Hong Kong ministerial largely remain conditional on the round reaching a successful conclusion), the world economy had nevertheless continued to become more integrated, with a steady rise in the ratio of world trade to GDP.

It is certainly the case that there are other forces besides the WTO that are driving international trade integration. According to calculations by World Bank economists (who looked at the trade-weighted tariff rates of the 33 largest developing country importers) roughly two-thirds of the decline in average tariffs over the past two decades has come from *unilateral*/liberalisation.⁷ This compares to just 25 per cent from multilateral liberalisation (the Uruguay Round) and only 10 per cent from preferential trade agreements (PTAs). So perhaps the world

economy can rely on the powerful forces unleashed by international global competition and the business incentives that it creates, along with the fruits of technological progress (in the form of lower transport and communications costs) to continue to drive world trade.

This optimistic assessment may turn out to be right. But a completely defunct Doha would be a defining moment for the global trading system, marking as it would the first irrevocable breakdown in trade negotiations since the GATT was established in 1948. A complete and total collapse in negotiations could damage the credibility not just of the current trade round, or even trade rounds in general, but of the WTO and the multilateral trading system overall. Without the prospect of *future* progress with trade liberalisation, the result could be an increasing reluctance to abide by *existing* commitments, leaving the world's great trading powers feeling increasingly entitled to dictate their own rules for international trade. Under such circumstances, the end game could be an unwinding of the very process of globalisation on which the optimistic scenario is counting. Such a world would be a very uncomfortable place for all but the largest and most powerful economies.

What Comes Next?

In the absence of progress through negotiation, the temptation will be to seek liberalisation by litigation, with countries turning to the disputes settlement mechanism to try to prise open markets and deal with outstanding trade problems. While the dispute mechanism has been an effective tool for keeping markets open, however, its efficiency as the sole tool for driving further liberalisation is questionable, not least because of the likely domestic political back-

lash that sustained use of a legalistic approach would engender.

Instead, the most obvious development in prospect would involve countries spending even more of their time and energy negotiating various forms of PTAs—bilateral, regional and cross-regional. This would merely take the world economy further down an already well-trodden path, as the number of such

6. Stephen Roach 2006. *Doha doesn't matter*, Morgan Stanley Research Global, 4 August.

7. World Bank 2004. Global economic prospects 2005: trade, regionalism and development, Washington DC: World Bank.

agreements has already surged since the 1990s.

The prospect of a world economy enmeshed in an expanding network of overlapping trading arrangements is a worrying one for many economists. One risk is that, rather than supporting world trade, the resulting web or spaghetti bowl or noodle soup of agreements, with their inconsistent rules of origin and differing product coverage and content, will turn out at best to impede international economic integration and at worst to actively undermine it. Some economists even look back to the poisonous economic nationalism of the 1930s, when the world economy fragmented into competing trade blocs, as a warning of what the worst case scenario could entail. Such fears are almost certainly overdone, and it is quite possible that some PTAs will turn out to have a positive impact on trade integration. Still, the bottom line is that there is no clear theoretical or empirical consensus as to whether the mass proliferation of PTAs is likely to complement the multilateral system or undermine it. This is far from reassuring given that the world is about to charge off even further down the PTA route.

The potential problems associated with proliferating PTAs have at least prompted a series of proposals that seek to reduce the risks. Some of these look to promoting better or cleaner PTAs, for example by making it easier for other economies to join in, or by proposing the use of less distorting types of rules of origin, or, more modestly, by encouraging the adoption of best practice guidelines for such agreements. An example of the former approach is Profes-

sor Ross Garnaut's proposal for open trade arrangements that would use the simplest and most liberal rules of origin available, and which would extend membership to any country willing to meet the conditions of the agreement.⁸ An example of the latter approach is APEC's list of best practice rules for PTAs.⁹

Another alternative that is often canvassed is for the WTO itself to enforce greater external discipline on its members' pursuit of PTAs, for example by tightening up the language of, and then enforcing, Article XXIV of the GATT, which is supposed to regulate such agreements. But the idea of toughening Article XXIV and/or its application is a proposal that has been around for some time, and experience indicates that making any significant progress along this route is very difficult.¹⁰

Another suggestion is to go for regional or even larger PTAs. One example of this approach would be the proposed APEC-wide free trade area for the Asia-Pacific (FTAAP). Yet another would be Japan's proposal for a regional trade agreement that would take in the 16 members of the East Asian Summit.¹¹

At least part of the thinking behind these proposals for supersized PTAs seems to be that they would at least minimise the distortions associated with having a large number of smaller agreements, by incorporating a substantial portion of the world economy under the same rules and arrangements. Other advocates of such agreements see them as being large enough to force countries back to the multilateral system through fear of exclusion (supporters of NAFTA sometimes

8. Ross Garnaut 2004. "A new open regionalism in the Asia Pacific", paper presented at the International conference on world economy, Colima, Mexico.

9. APEC 2004. *Best practice for RTAs/FTAs in APEC: agenda item: v.2, 16th APEC ministerial meeting, Santiago, Chile, 17-18 November 2004*. http://www.apec.org/etc/medialib/apec_media_library/downloads/ministerial/annual/2004.Par.0004.File.tmp/04_amm_003.pdf.

10. See, for example, the discussion in World Bank, *Global economic prospects 2005: trade, regionalism and development*. A similar conclusion is reached in Sutherland *et al.*, *op. cit.*

11. On the FTAA see C. Fred Bergsten, "Toward a Free Trade Area of the Asia Pacific", paper presented at the APEC CEO Summit, Santiago, Chile, 19 November 2004.

argue that it helped convince otherwise reluctant European trade negotiators to complete the Uruguay Round). Yet many of the same issues that have caused Doha to run into the ground would appear to be almost

equally as likely to dog any such large-scale negotiations at present. To date, for example, there appears to have been little appetite on the part of several major APEC members to negotiate an FTAAP.

Reforming the Multilateral System?

The best way to get economies to turn away from PTAs and back to the multilateral system is, of course, to increase the attractiveness of the latter. What might this entail?

While the WTO grants a say to all of its members (in principle on a one member, one vote basis), in practice the overwhelming majority of world trade is accounted for by a minority of countries: 30 countries account for almost 90 per cent of all merchandise exports and more than 85 per cent of all merchandise imports.¹² In other words, to deliver a meaningful result for world trade, only a subset of the WTO's membership is needed, or indeed relevant.

One implication is that it might not be necessary to take all of the WTO's members forward on a particular issue, allowing more ambitious members to press ahead with their own agendas while staying within the multilateral system. Alternatively, given the problems with large trade rounds, it might be possible to turn to single-issue negotiations. One option therefore would be a retreat from the idea of a single undertaking introduced by the Uruguay Round, whereby all the issues up for negotiation are treated as a total package. This would basically represent a step back in time, to when some agreements were negotiated that were adopted only by those GATT members that chose to be bound by them. Such optional or 'plurilateral' agree-

ments were a feature of the Tokyo Round (1973-79). However, many of these were amended in the Uruguay Round and turned into multilateral agreements, leaving only two such arrangements still operational (covering government procurement and trade in civil aircraft). Indeed, a major objective of the Uruguay Round was precisely to move away from this approach, although even post-Uruguay there are some examples to be found, such as the 1997 Information Technology Agreement.¹³

Placing a greater emphasis on a plurilateral approach would have the advantage of allowing those members with more ambitious agendas to advance them within the existing WTO-based framework. But it would achieve this at the cost of creating a multi-class membership structure and hence possibly losing some of the current system's legitimacy.

A second group of proposals would look to an even more fundamental reform of the multilateral system. The logic here is that the idea of reciprocity on which the current system is based, whereby domestic trade liberalisation is treated as a concession that must be made in order to purchase market access overseas, runs directly counter to the ideal of free trade, which would have countries cutting their own trade barriers because it is in their best interest to do so. This approach would therefore seek to change the foundations of the system, by re-emphas-

12. Data are for 2004. If the EU is counted as a single reporter, then trade flows are even more concentrated.

13. The Information Technology Agreement provides for participants completely to eliminate duties on the information technology products covered by the agreement. Originally signed by 29 participants accounting for 88 per cent of world trade in IT products, the agreement entered into force in 1997 after several other countries had joined. At present the ITA has 68 participants and accounts for about 97 per cent of global IT trade.

ing the benefits of domestic liberalisation and, by being more transparent about the costs of protection, reinvigorating the domestic political case for liberalisation. For example, Andrew Stoeckel has argued for an augmented role for the WTO's Trade Policy Review Mechanism to carry out economy-wide analyses of the costs and ben-

efits of trade policies, and so encourage a political constituency for liberalisation. Similarly, Bill Carmichael has stressed the importance of securing a domestic commitment to liberalisation, arguing for institutions to promote domestic transparency for trade policy along the lines of Australia's Productivity Commission.¹⁴

Conclusion: Intensive Care or the Crematorium?

At the time of writing, the future of the Doha Round remained uncertain. Indeed, perhaps the only grounds for optimism rested on the fact that trade rounds have come back from the brink before, and therefore that Doha might be able to repeat the trick. Either way, reform of the

global trading system now looks to be a pressing task for international policymakers. Reform is needed to take not just the Doha Round, but also the multilateral system itself, from intensive care and into the infirmary, where the recovery process can begin. Otherwise, the crematorium beckons.

14. Andrew Stoeckel 2004. *Termites in the basement. To free up trade, fix the WTO's foundations*, Barton: Rural Industries Research and Development Corporation. Bill Carmichael 2005. *Trade policy at the cross-roads*, Pacific Economic Papers No. 351, Canberra: Australian National University.

Civil Society Lobbying in the WTO

Aileen Kwa*

Just before the WTO talks collapsed in July 2006, Director General Pascal Lamy had this to say:

Should the breakdown ... transform into a failure to resume the talks, there would be no winners. All of us would pay. We would pay through lost opportunities to expand trade, increase economic growth and boost development efforts in poor countries. We would pay, too, through a weakening of the multilateral trade system in favor of far less effective bilateral trade deals ... Yes, we would all pay for this failure, but it is the poorest and weakest among you who would pay the most. The Doha round was launched nearly five years ago as a means to better integrate poor countries into the global economy. (*International Herald Tribune*, 28 June 2006)

Since July, there has been a strong push by Pascal Lamy, the US and some others to ensure that the round awakes from its comatose state after the US Congressional elections in November. The hope held by Pascal Lamy is that the talks can then conclude during the available opportunity—between November 2006 and March 2007. Alternatively, if talks drag on beyond March, there might be enough free traders in the US Congress to support the extension of fast track till the conclusion of the Doha Round. (Fast track expires in July 2007.)

The irony is that civil society groups around the world have had very different perspectives on the July collapse. For example, Pablo Rosales, speaking on behalf of the

Fisherfolk Movement in the Philippines, commented, 'We are happy that the talks have been suspended indefinitely, but we would be even happier if the suspension becomes permanent. The time for reflection should be used to think about development without the WTO.'¹

La Via Campesina, the international coalition of small farmers, was equally upbeat. Their spokesperson, Henry Saragih of Indonesia, said:

We're celebrating this occasion. Today's outcome has also been the result of movements pressuring their governments in their capitals. We have worked hard in Indonesia, pressuring our government to stop agricultural imports which have pushed our farmers out of their jobs.

Via Campesina has always called for the WTO to get out of agriculture. Now is the time for food sovereignty. The WTO should also get out of all sectors. We will continue to pressure the WTO to stop the negotiations completely.²

Welcoming the developments, Joseph Purugganan of the Philippine-based Stop the New Round Coalition commented:

It is time to think of a world beyond Doha, a world beyond the WTO, and start building and strengthening people's alternatives. We want an alternative system of global trade that protects livelihoods, promotes food sovereignty, secures jobs, and facilitates access to basic human needs such as water, education, health care and affordable medicines. This alternative system is anchored on cooperation and not competition, where people's welfare matters more than profits.³

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1. <http://www.focusweb.org/content/view/987/36/>.

2. *ibid.*

3. *ibid.*

And according to Walden Bello, executive director of Focus on the Global South:

The idea that the Doha Round was a 'development round' could not have been farther from the truth. Whilst trade can be a medium for development, from the very start, the aim of the developed countries was to push for greater market openings from the developing countries while making minimal concessions on their part. Invoking development was simply a cynical ploy to make the process less unpalatable.

The collapse of the Doha Round is good for the poor. With the unravelling of the

WTO talks, the task should now be to shift to creating alternative frameworks and institutions other than the WTO and its neo-liberal bilateral or regional counterparts, and to build trade mechanisms that would make trade truly beneficial for the poor.⁴

Why is there this contrast? For the remainder of the article, I will elaborate upon some civil society views on the WTO that have taken expression through the campaigns groups have been engaged in, in their efforts to 'shrink or sink'⁵ the WTO. I will conclude with some ideas regarding the alternatives to the multilateral trading system.

WTO's Lack of Transparent Processes Severely Disadvantages the Weak

One area of campaigning on the WTO that I have been involved with is on the problematic process of negotiations. Unlike the predominant UN style of negotiations, in which negotiating texts are debated and redrafted in the presence of the membership, negotiations are much more 'underground' in the WTO, characterised by informal, secretive, closed door, exclusive small group meetings and drafts that suddenly appear 'as if by magic', as former Indian trade minister Murasoli Maran attested after his experience in Doha. Civil society groups have also denounced mini-ministerials, to which only a small number of ministers are invited, but in which critical issues are discussed and decided. We have also objected strongly to the abuse of power by chairpersons heading negotiating committees, who assume the right to issue texts on their 'own responsibility', reflecting the positions of the more

powerful and ignoring the concerns of the weak.

This campaign has taken place over several years now. The objective has been to alert the wider international community to the shenanigans taking place in the WTO. We have done this through a continuous series of publications.⁶

We have also worked closely with an international network of civil society groups in joint campaign statements to publicise the views of civil society and to put pressure on the WTO secretariat and government officials, as well as to alert the media that there are different perspectives. A sign-on open letter from almost 70 groups addressed to Pascal Lamy was submitted a year ago on the GATS negotiations prior to the Hong Kong ministerial over the infamous 'Annex C' in the Hong Kong ministerial

4. *ibid.*

5. 'Shrink or Sink' was the slogan for the WTO used by the Our World Is Not for Sale (OWINFS) Network when it began in 2000.

6. See, for example, Jawara and Kwa 2003/2004. *Behind the Scenes at the WTO: The Real World of International Trade Negotiations*. Also relevant are Aileen Kwa 'Power Politics in the WTO', highlighting the procedural irregularities in the Doha 2001 ministerial and views of developing country negotiators, and Sharma S. on the Decision-making process at <http://www.tradeobservatory.org/genevaupdate.cfm?messageID=78023>.

declaration. Just weeks before the Hong Kong ministerial, the EU, US and India sought to make radical changes to the rules of the game in the GATS negotiations, to fast-track these negotiations. The majority of developing countries were vehemently opposed to their agenda. The chair of the Council for Trade in Services, Mexico's then ambassador Fernando de Mateo, abused his position as chair and inserted items into the negotiating draft text for Hong Kong, in the section on GATS, which clearly did not have the consensus of the majority. He even stated that he would not agree to taking elements out of the text unless there was a consensus! Clearly, those whose positions were not reflected by the text, the African, Caribbean and Pacific countries, as well as the ASEAN countries (minus Singapore), were disadvantaged. This led to a near revolt in the Hong Kong ministerial, in which the ACP group came up with an alternative text.⁷

The civil society letter was an attempt to bring the highly unjust process of negotiations to light. Many developing country delegates complained in the negotiating forum, but the chair had simply ignored their views. The letter, dated 1 November 2005, said:

On 13 October, the Chair of the Council for Trade in Services (CTS), Mexican Ambassador Fernando de Mateo circulated a first 'Note by the Chairman' on 'Possible Elements for a Draft Ministerial Text on Services' (JOB(05)/234. Under 'Objectives' to the negotiations, Ambassador Mateo included:

- Modal or other specific multilateral objectives
- Sectoral and modal objectives as individually expressed by Members ... and under 'Approaches'
- Plurilateral approaches, sectoral—

and/or mode-specific

- Multilateral approaches (e.g. measure specific)

- Numerical targets and indicators.

These elements however do not have the support of the whole membership. In particular, benchmarks, modal specific approaches or numerical targets to speed up the GATS negotiations have been intensely rejected by a large number of developing countries including LDCs. The many statements made by countries and coalitions in the various CTS meetings prove this. In the CTS, many delegations therefore requested that these issues be removed or bracketed, given the lack of consensus. They also pointed out the double standard: that the section on 'Rules', referring to the emergency safeguard mechanism (ESM) negotiations, was placed in brackets even though it was agreed to be negotiated. It was also repeatedly stated that a new paragraph on Principles should reinforce the current architecture of the GATS.

Despite these objections, the new proposals regarding new approaches again reappeared—unbracketed—in Ambassador Mateo's second draft elements dated 20 October.⁸

The letter went on to say that there were two particularly worrying issues:

First, having multilateral approaches such as numerical targets and indicators—essentially compelling countries to open up a specified number of sectors—will contravene the built-in flexibilities of the GATS and put developing countries' development objectives and policy space in jeopardy. Even plurilateral approaches are problematic since these negotiations will be driven by those with the biggest export capacity. Those who are party to the negotiations will determine critical issues such as 'classification issues' within the sec-

7. For a more detailed account of what happened in Geneva when Mateo tabled his text, refer to Aileen Kwa, 'The Great GATS Scandal', 30 October 2005, <http://www.ourworldisnotforsale.org/showarticle.asp?search=888>.

8. http://www.wto.org/English/news_e/news05_e/dg_openletter_nov05_e.htm.

tor, as well as be the players drawing together the regulatory standards for what is acceptable within such plurilateral agreements. These standards will be those in harmony with the interests of the major corporations. Based on past experience with the financial services and telecoms agreements, there is no guarantee that Members will not be intensely pressured to join in these plurilateral agreements. Those who may want to join in later will find the rules of the sector already predetermined, in line with certain corporate interests.

The second issue of concern is that of process. As we questioned the process in the run up to the Cancun WTO Ministerial Conference whereby the Chair of the General Council drafted the Ministerial Text on his 'own responsibility' without the consensus of the Membership, we again question the similar process that is occurring today. This process clearly lacks inclusiveness and transparency. We must ask you, Mr. Lamy, if Ambassador Mateo's approach represents a new way of defining and practicing consensus in the WTO? Can the Chair table draft elements that do not represent consensus and then require consensus for any amendments to the text?

As Chair of the Trade Negotiating Committee you have indicated that you might be tabling a draft Ministerial Text by mid November based on the draft texts received from the Chairs of the various negotiating committees. Will you present a consolidated draft Ministerial Text based on submissions from negotiating committees that have been questionably crafted, as we have seen, for example, in the case of the Chair of the Council for Trade in Services?

We look forward to your clarification on this matter and to ensure that—as in previous years—a draft Ministerial Text will be presented to Ministers of WTO Members, which includes within brackets the positions of all Members on matters where consensus does not exist. Civil society or-

ganizations in WTO Member states will hold you accountable on your responsibility to ensure that the draft Ministerial Text delivered to Ministers before Hong Kong reflects the consensus interests and positions of WTO Members and, in particular, in this Doha Development Round, of developing countries. Failure to do so only makes a mockery of the 'multilateral', 'rules-based' trading system.⁹

Civil society groups have also been objecting to the exclusive mini-ministerial meetings that have become an integral part of WTO negotiations. Some of these views were captured in a letter that 150 NGOs sent to trade ministers in November 2002, ahead of a mini-ministerial meeting that was to be held in Sydney:

Civil society groups from around the world call upon the 145 WTO member states and their trade ministers to follow transparent and inclusive procedures and reject the use of 'unofficial' and exclusive mini-ministerials in the run-up to the WTO's Fifth Ministerial in Cancun and of Green Room meetings during Cancun. Participation in these mini-ministerials and Green Room meetings is by invitation only, and includes about twenty-five countries, yet they discuss critical WTO matters affecting all member states. The use of such exclusionary meetings to build consensus among the few which is then presented to the majority as a take-it-or-leave-it package, must be rejected by WTO member states as clearly undemocratic and in violation of the one-country-one-vote and consensus system of the WTO.

These meetings are fundamentally flawed because

- 1) the criteria of countries selected are unknown;
- 2) no written record is kept of the discussion;
- 3) decisions are made that affect the entire membership and the agenda is set on their

9. *ibid.*

behalf and in their absence;

4) an attempt is made to build 'consensus' on critical WTO negotiations by a select group which de facto and illegally takes leadership of the organisation.

The holding of such illegitimate and 'un-official' mini-ministerials and Green Room meetings should not be accepted by WTO members. This process violates the spirit of international cooperation and undermines democratic principles for an international institution that creates legally binding and enforceable agreements for 145 governments worldwide.

The historical record of the WTO shows that before the WTO Ministerial meetings in Singapore (1996), Seattle (1999) and Doha (2001), mini-ministerials were held to promote the goals of the major developed countries. The same process is now taking place on the road to Cancun. The major powers in the WTO regularly make use of such 'mini-ministerials' to pressure developing countries to accept their positions which have been contrary to the interests of development.

Such meetings substantiate the endemic problems of transparency that have plagued the WTO since its inception in 1995. As recently as May 2002, a group of fifteen developing countries put forward recommendations addressing critical transparency problems affecting balanced and fair decision-making in the WTO. These concerns currently remain unaddressed.¹⁰

The letter ended with some demands:

We therefore call upon all WTO Members to:

1) Reject 'exclusive' mini-ministerial and Green Room meetings where only a select group of WTO Members are invited to discuss the WTO agenda behind closed doors.

2) Devise inclusive and transparent mechanisms to build consensus amongst

its membership rather than resorting to an 'exclusive club' of members.

3) Demand that negotiating texts produced by the Chairpersons of each committee and drafts of Ministerial Declarations reflect the various views put forward by all parties, and not just those of more powerful members.

4) Stop the use of bilateral political and economic pressures by developed countries on other developing countries that force them into a false 'consensus' at the WTO at the cost of their real development concerns.

5) Create written and accountable rules of decision making in the WTO that are transparent and democratic and address day-to-day WTO negotiations, preparatory process for the Ministerial meetings and Ministerials themselves. Specifically:

- All countries should be notified of all consultations taking place, and they must be allowed to attend all meetings. The excuse of 'efficiency' must no longer be used to exclude the majority.

- There must be transparent and democratic procedures for the selection of Chairs of WTO committees and the exact role and mandate of the Chairs should be defined.

- Secretariat staff must take seriously the development mandate emerging from Doha.

- Secretariat staff should not be allowed to chair WTO committees as the Secretariat is supposed to play a neutral and a purely administrative role.

- Devise an effective democratic consensus building mechanism where power politics is monitored and eliminated. This must include proper minutes of all meetings that are circulated amongst all members, inclusion of dissenting views in minutes and negotiating texts, and voting as mandated in Article IX.1 if there is no consensus.¹¹

These issues of process have not been ob-

10. <http://www.globalpolicy.org/ngos/int/wto/2002/1104reject.htm>.

11. *ibid*.

jectionable to civil society groups alone. In April 2002, after the Doha ministerial launching the Doha Round, a group of developing countries submitted a paper suggesting ways to improve the procedures in ministerials and before ministerials.¹²

Their paper was shocking only because of the very basic demands contained in it—that all consultations should be transparent and open ended (i.e. open to all delegations); the draft ministerial declaration should be based on consensus and, where this is not possible, differences should be fully and appropriately reflected in the draft ministerial declaration; if the majority of the membership has strong opposition to the inclusion of any issue in the draft ministerial declaration, then the issue should not be included in the draft declaration; in the preparatory process for the ministerial con-

ference and at the ministerial conference, the director general and the secretariat of the WTO should remain neutral and impartial on the specific issues being considered in the ministerial declaration: 'They shall not express views explicitly or otherwise on the specific issues being discussed in the Ministerial Conference'.¹³

It is perhaps not surprising that only lip service was paid to correcting the process issues after Doha. As one of the delegates whose government had sponsored the above paper said some months after they had launched it, 'The paper has been in the deep freeze'. There was no political will on the part of the major powers to make the procedures more transparent. A change to transparent and democratic procedures would have a major impact on the substantive outcomes in the WTO negotiations.

Liberalisation—The Wrong Paradigm

Improving the process alone, although critical, will not right all the wrongs. Even more fundamental than the flawed process is the mission to liberalise all sectors and all areas, often according to some fixed formula (apart from the GATS). Liberalisation becomes the de facto development policy, especially for those without the political muscle to invent loopholes in the rules. This blinkered approach is alarming. The case has been made over and over again in the recent years, by UN agencies and economists,¹⁴ that big bang liberalisation will not yield development results. The experience of the developed countries, as well as developing countries that have been successful—South Korea, Taiwan, Singapore and now the emerging economies of China and

India—illustrates that the Washington consensus prescriptions cannot yield the results we want. According to Harvard-based economist Dani Rodrik:

Many of the countries that have opened themselves up to trade and capital flows with abandon have been rewarded with financial crises and disappointing performance. Latin America, the region that adopted the globalization agenda with the greatest enthusiasm in the 1990s, has suffered rising inequality, enormous volatility, and economic growth rates significantly below those of the post-World War II decades.¹⁵

UNCTAD's 2004 LDC report questioned

12. http://commerce.nic.in/wto_sub/GC/sub_gc-wtgcw471.htm.

13. *ibid*.

14. UNDP, 'Making Globalization Work for the Poor'; see also UNCTAD's 2004 Report; UNCTAD's Trade and Development Report 2006; Ha Joon Chang 2002, 'Kicking away the Ladder'; various writings by Yilmaz Akuz on the non-agricultural market access negotiations; various writings by S.M. Shafaeddin on trade policy.

15. Dani Rodrik, 'Globalization for Whom? Time to Change the Rules and Focus on Poor Workers', *Harvard Magazine*, <http://www.harvardmagazine.com/print/070280.html>.

the blind faith that market access would solve the woes of the developing world. The report stated that while there had been a significant number of export take-offs in a large number of LDCs since the late 1980s, 'on balance, future poverty reduction prospects seem to have worsened'. 'There is no guarantee that export expansion will lead to a form of economic growth that is inclusive', it noted. 'Indeed, there is a strong likelihood that export-led growth (in LDCs with mass poverty) will actually turn out to be "enclave-led growth" ... that is concentrated in a small part of the economy, both geographically and sectorally.'

Research-based NGOs have also publicised figures illustrating the extent to which trade liberalisation policies have stunted rather than encouraged growth. For example, Mark Weisbrot of the Center for Economic and Policy Research compared average growth rates in 175 countries between 1960-1979 and 1980-2005. He divided countries into five groups according to their per capita income at the start of each period. In the top four groups, average growth rates fell by more than half, from averages of 2.4 to 3.1 per cent in 1960-1979 to averages of 0.7 to 1.3 per cent in 1980-2005. Only the group with the lowest per capita GDP showed a tiny increase, from 1.7 to 1.8 per cent, and only because this group included fast-growing China and India.¹⁶

What was also startling in the six to eight months preceding the collapse of the Doha talks were the studies projecting the results of the round. These studies, from the

Carnegie Endowment for International Peace,¹⁷ Tim Wise and Kevin Gallagher of Tufts University,¹⁸ even the EC's own sustainability impact assessment¹⁹ and the FAO,²⁰ have found that the poorest countries actually lose out if the round concludes.²¹ The FAO study, for example, concluded that full trade reform for Africa will lead to deindustrialisation. Rather than facilitating diversification, the likely consequence is the contraction of higher value added or light and heavy industrial and services sectors. This leaves Africa only with the option to expand production in traditional agricultural commodities, possibly driving prices even lower, since demand for these commodities tends to be inelastic.

A recent letter jointly prepared by a number of civil society groups which are part of the Our World is Not for Sale Network was sent out to all G20 trade ministers on 9 September, on the occasion of the G20 ministerial meeting in Brazil. The letter highlights the concerns by civil society groups that the WTO's liberalisation mandate is deeply flawed. The WTO, according to these groups, requires a fundamental overhaul—not simply tinkering with its components. Below are some excerpts:

Past Experience with WTO's Failure to Increase Incomes, Decrease Poverty

Ever fewer politicians or pundits now repeat the disproved slogans about the current Doha Round framework offering gains for poor countries' economic development or poverty reduction. This shift has occurred in part because of the recent

16. M. Weisbrot *et al.* September 2005. 'The Scorecard on Development: 25 Years of Diminished Progress', Washington: Center for Economic and Policy Research.

17. S. Polaski 2006. 'Winners and Losers', Carnegie Endowment for International Peace.

18. T. Wise and K. Gallagher, 'Doha Round and Developing Countries: Will the Doha Deal Do More Harm than Good?', RIS Policy Brief #22.

19. C. Kirkpatrick, C. George and S. Scricciu 2006. 'Sustainability Impact Assessment of Proposed WTO Negotiations: Final Global Overview Trade SIA of the Doha Development Agenda', University of Manchester, Consultation Draft. P. iv. http://222.sia-trade.org/wto/FinalPhase/GLOBALOVERVIEW_FINALMAY2006.pdf.

20. FAO 2005. 'Towards Appropriate Agricultural Trade Policy For Low Income Developing Countries', FAO Trade Policy Technical Notes on Issues Related to the WTO Negotiations on Agriculture. No. 14.

21. For a summary of these studies, see Aileen Kwa 2006. 'Recent Assessments: Africa to Lose Out from WTO Negotiations, Even in Agriculture', 5 June. <http://www.ourworldisnotforsale.org/showarticle.asp?search=1571>.

findings of net losses for many developing countries under the likely Doha Round scenarios and in part because the record of the WTO's decade in effect has left the majority of people in developing and developed countries alike worse off than they were before.

The WTO decade has clearly demonstrated the failure of the WTO model in agriculture, the primary issue of the G20. While the volume of food traded worldwide has increased, the prices paid to farmers for their production have fallen dramatically. This has resulted in the loss of livelihood for innumerable farmers worldwide, such as in India, where over 100,000 farmers have committed suicide because they can no longer earn a living from traditional agriculture. In addition, world hunger has actually increased in the WTO decade. At the same time, consolidation in the global agriculture industry has allowed just a few transnational corporations to control over two-thirds of world trade in primary grains.

The core of the agricultural proposals in the Doha Round merely continue the same model, while allowing a few more countries to expand their participation in global agricultural trade. The proposals of the G33 to allow developing countries to exempt 20 percent of their farm production from tariff cuts, and to preserve important flexibilities for developing countries in the use of the Special Safeguard Mechanism, are a step in the right direction—but they are insufficient. Instead, at this determinative moment in the global trade debates, there is a unique opportunity to fundamentally re-design a completely different model of agricultural trade that will provide true food sovereignty—based on ensuring food security, promoting rural development, and safeguarding farmers' livelihoods.

The WTO has not only failed in food and agriculture policy. It has also failed to achieve the most basic progress in reducing poverty. The number and percentage of people living on less than \$1 a day (the World Bank definition of extreme pov-

erty) in regions with some of the worst forms of poverty—Sub-Saharan Africa and the Middle East—have increased since the WTO began operating, while the number and percentage of people living on less than \$2 a day have increased at the same time period in these regions, as well as in Latin America and the Caribbean.

The number of people living in poverty has also increased in South Asia, while growth rates and the rate of reduction in poverty have slowed in most parts of the world—especially when one excludes China, where huge reductions in poverty have been accomplished, but not by following WTO-approved policies (China became a WTO member only in 2001). Indeed, the economic policies that China employed to obtain its dramatic growth and poverty reduction are a veritable smorgasbord of policies outside the WTO model: high tariffs to keep out imports and significant subsidies and government intervention to promote exports; an absence of intellectual property protection; government-owned, operated and subsidized energy, transportation and manufacturing sectors; tightly regulated foreign investment with numerous performance requirements regarding domestic content and technology transfer; government-controlled finance and banking systems subsidizing billions in non-performing debt; and government-controlled, subsidized and protected agriculture. Many of these same policies are those employed by the now-wealthy countries during their period of development.

It's not as if the status quo is working for most people in the rich countries either. During the WTO era, the U.S. trade deficit has risen to historic levels—from \$130 billion (in today's dollars) in 1994 (the year before the WTO went into effect) to more than \$717 billion in 2005. The U.S. trade deficit is approaching 6 percent of national income—a figure widely agreed to be unsustainable, putting the global economy at risk. Soaring U.S. imports during the WTO decade have contributed to the loss of 3 million manufactur-

ing jobs in the United States—or nearly one in six. Real median wages in the United States have scarcely risen above their 1970 level, resulting in declining or stagnant standards of living for the nearly 70 percent of the U.S. population that does not have a college degree.

A close examination of the WTO's past failure to improve peoples' livelihoods and eradicate poverty is essential to any reflection regarding the future course of global trade talks and rules.²²

During the time of reflection (post-July 2006), the letter suggests, governments should be looking at how to use trade as a leverage for development. A different model is required:

The current failure of the Doha negotiations is, indeed, a clarion call for a new system of democratic multilateral governance based on people-centred, ecologically sustainable development. The critics of corporate globalization are for international trade between different, unique countries or regions when it is mutually beneficial.

In many countries across the globe, citizens are electing leaders who reject the current model of 'corporate globalization' embodied in the WTO in favour of policies that promote economic development, social equity, and environmental protection. Processes of regional integration in Latin America and other regions are developing new models of trade based on complementarity, solidarity, cooperation and respect for sovereignty. We now have a unique opportunity to stop the expansion of the model of corporate globalization embodied in the WTO and its top-down, one-size-fits-all policies.

At this crucial moment, we can take a moment to reflect upon the basic characteristics of a new global trade policy that would truly promote development, human rights, and poverty eradication. The

new global trade system must be significantly reduced in scope from the current WTO, to remove many of the constraints on countries' democratic policy space for future development. Currently, the WTO trumps all other international agreements. The WTO must be scaled back so that the human rights, environmental, labour and other multilaterally agreed public interest standards already enshrined in various international treaties can serve as a floor of conduct for corporations seeking the benefits of global trade rules. For instance, the International Labour Organization provides core labour standards; there are more than 200 multilateral environmental treaties; and the World Health Organization and the U.N. Charter on Human Rights provide many standards on access to medicine and the human right to food security. Countries' fundamental right to develop economic, industrial, and agricultural policies that foster genuine economic development, create decent jobs, protect farmers' livelihoods, promote access to essential services and enhance the environment must not be subordinated to the commercial interests of the increasingly powerful corporate elite. These are just some of the building blocks of the future global economy ...

In sum, as members of civil society who would be affected by any potential conclusion of the Doha Round of WTO expansion, we have reflected on the past record and potential impacts of present negotiations in the WTO. The future of global trade lies in a fundamental shift away from the model of corporate globalization embodied in the WTO and towards a different vision. We offer the following as next steps in the reflection process.

1. The future of the global trading system must be designed with the widest participation of all WTO members and communities that would be affected by the outcomes, particularly the poorest and most marginalized. The Director General

22. <http://www.world-psi.org/TemplateEn.cfm?Section=Home&CONTENTFILEID=12038&TEMPLATE=/ContentManagement/ContentDisplay.cfm>.

must not be permitted to work with a selected group of members to push through final decisions in a Round that is projected to harm the poorest members.

2. Years of experience with the WTO have demonstrated its negative impact on workers, farmers and the environment in rich and poor countries alike. Assessments by the World Bank, Carnegie Endowment and trade unions have shown the negative impact the potential conclusion of the Doha Round would have on the world's poorest countries. After your and our reflection on the past failure to promote development and the current meagre and negative projections for growth, the current Doha Round agenda should be set aside permanently.

3. Following this period of reflection on

the WTO's past impacts and present negotiations, it has become clear that we now face an unprecedented opportunity to transform the multilateral trading system for the good of the vast majority of the world's people. We must develop a completely new global economic system based on proven policies that reduce poverty, promote people centred ecologically sustainable development and that is subordinate to global agreements on human rights, labour rights, and environmental protection. The Doha Round must be replaced by a course of negotiations actually designed to fix the current problems in the global trading system and that preserves the policy space essential for governments to pursue domestic strategies that will bring true development to their populations.²³

The Agriculture Campaign

Lest it be thought that civil society lobbying is limited to sign-on statements and letters sent to ministers and the director general, I would say that the most effective trade campaigns are those which take place on the ground in capitals. Of all the issues dealt with in the WTO, the agriculture campaign probably has the biggest following, due to the huge sensitivities associated with that sector across a large majority of developing countries, where the sector is closely tied up with livelihoods and food security.

La Via Campesina, for example, organises and campaigns across both the developed and developing countries, locally and nationally. According to the network, the WTO has 'aggravated the economic crisis in rural areas throughout the world. The liberalisation of agricultural markets, the forced opening of borders and tariff cuts have put farmers in a global system of un-

limited competition in which the only beneficiaries are transnational agribusiness companies and their shareholders ... The consequent collapse of the prices of most agricultural products has destroyed millions of small farmers' livelihoods, leading to a rural exodus and an exponential increase of migrations.'²⁴

Through activism such as local organisation, demonstrations and public actions, 'La Via Campesina will continue to intensify the struggle against neo-liberalism and will fight against all the free trade agreements that are currently being negotiated in the world. La Via Campesina will be active among other social movements around the world to carry on the fight against trade liberalisation.'²⁵

What is this rather visible group advocating? 'In parallel to its strategy of struggle,

23. *ibid.*

24. La Via Campesina 2006. 'La Via Campesina Statement on the Collapse of the WTO Talks', July, http://www.viacampesina.org/main_en/index.php?option=com_content&task=view&id=196&Itemid=26.

25. *ibid.*

La Via Campesina has developed with many partners an alternative proposal to overcome the crisis: food sovereignty. It proposes an international management of agricultural markets based on cooperation and responsibility in order to guarantee a just price both for producers and consumers. The right to food sovereignty is based on the strengthening of family farming and on a fair access to the means of production: land, water, seed, training and credit. This presupposes developing agriculture for local food sufficiency, as well as setting up short commercial circuits.²⁶

There is also an impressive agriculture campaign in India, simply because 650 million small farmers have their livelihoods at stake. The problems of the sector are often much broader in scope than the purview of the WTO. However, since they are usually related to trade liberalisation, there is also strong opposition to WTO policies and WTO negotiations, which will further curtail the ability of the Indian government to govern imports.

As referred to in the above civil society letter to the G20 ministers, between 1993 and 2003, 100,000 Indian farmers committed suicide, a testimony to the pervading crisis in the sector. In 2003 alone, 17,000 farm-

ers took their own lives.²⁷ The main reason was increased imports of some products, falling domestic prices and the resulting accumulation of debt. Campaigners are working closely with left political parties to bring the agricultural crisis to the attention of the country's policy makers. For instance, they are advocating increases in tariffs on items such as cotton. The tariff on cotton was brought down from about 60 per cent to 10 per cent some three years ago, and this has been responsible for the import surge, the price depression and suicides in that sector.

Such campaigns have had a palpable impact on the Indian government's position in the WTO talks. The talks in July 2006 stalled because the US remained adamant and hard-nosed in demanding market access. The US was willing to allow only a very narrow range of products in developing countries to be declared 'special products' (SPs)—5 tariff lines. The G33 coalition, of which India is a key member, was asking for 20 per cent of tariff lines as SPs, which would mean a lesser tariff cut for some products and no cuts for others. The Indian minister, Kamal Nath, rejected the US proposal, stating firmly that his hands were tied, and issues affecting subsistence farmers were not to be negotiated.

Where Do We Go From Here?

The collapse of the Doha talks provides a perfect opportunity to rethink our multilateral trading system. Civil society groups are already formulating positions and working on a new campaign on alternatives to the WTO as we know it.

What are some principles and elements of an alternative multilateral trading system (MTS)?

1. The backbone of the MTS, its *raison d'être*, has to be human rights. Rules that govern trade should be formulated with the goal of attaining human rights in mind. It is no longer about increasing trade flows or reducing protection.

2. The MTS should concern itself only with the regulation of trade, not its liberalisation. The latter should be the domain of

26. *ibid.*

27. A. Pal 2006. 'India's Farmers Bear Brunt of Globalisation', September 19, http://www.progressive.org/mag_apb091906.

national governments or be dealt with within regional trade blocs. Only national or regional governing structures are able to set the pace of liberalisation that accords with countries' development needs.

3. Trade regulation in the MTS could, for starters, include the following components:

Enforcement of extra-territorial responsibility: There should be a mechanism to stop dumping, i.e. goods being sold at less than the cost of production or at prices manipulated by transnational corporations. This should be an automatic system. Once the MTS secretariat spots a case of dumping,

attention is drawn to the case. Dumping has to stop and compensation could even be required.

There also needs to be monitoring of corporate power and anti-trust regulation that curtails corporations' operations if they have grown beyond a certain limit.

Regulation of supply and prices of commodities: International commodity agreements could regulate prices, which could complement the management of supply at the domestic level. This is particularly critical for lifting the rural poor out of poverty in the developing world.

The Fallacies and Irrelevance of the Aid for Trade Package

Bonnie Setiawan*

Background

The aid for trade package has recently emerged on the Doha negotiation table in the World Trade Organisation. The proposal was initially put forth during the sixth ministerial conference in Hong Kong, in December 2005, and mainly aimed at helping the 'developing countries, particularly least-developed countries (LDCs), to build the supply-capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade'.¹ Subsequently, the director general of the WTO, Pascal Lamy, formed the Aid for Trade Task Force in February 2006 with a mandate to provide members with recommendations on how the aid for trade package 'might contribute most effectively to the development dimension of the Doha Development Agenda'.

The task force on subsequently submitted its final recommendations at the meeting of the General Council, on 27-28 July 2006, to meet the July deadline set by the Hong Kong ministerial conference. The final report stated that aid for trade was about 'assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access'. The package aimed at enhancing growth prospects of the member countries, as well as reducing poverty 'and [to] distribute the global benefits more eq-

uitably across and within developing countries'. The report emphasised the need to mainstream trade-related issues into national development strategies. The task force report also suggested that 'country ownership and country-driven approaches, as well as a commitment of governments to fully mainstream trade into their development strategies, is key' to achieving those objectives. In addition, the report also emphasised mutual accountability, aligning aid to national development strategies, effective donor coordination, harmonisation of donor procedures and transparency.² The tone of the whole approach remained consistent with the WTO approach so far, i.e. the neo-liberal free-trade structural adjustment agenda.

The task force recommended that aid for trade should cover six broad categories:

- 1) Trade policy and regulations, which includes training trade officials and helping governments to implement trade agreements and comply with rules and standards.
- 2) Trade development, which includes providing support for businesses, promoting finance and investment and conducting market analysis, as well as e-commerce.
- 3) Trade-related infrastructure, which includes building roads and ports.

1. Hong Kong Ministerial Declaration adopted on 18 December 2005, paragraph 57. See http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm.
2. 'WTO Aid for trade task force submits final report to members', *BRIDGES Weekly Trade News Digest*, Vol. 10, No. 28, 2 August 2006, at <http://www.ictsd.org/weekly/06-08-02/story3.htm>.

4) Building productive capacity: improving the capacity of a country to produce goods and services.

5) Trade-related adjustment, which includes financial assistance to meet adjustment costs from trade policy reform, including balance of payment problems resulting from lost tariff revenues or from the erosion of preferential market access.

6) Other trade-related needs.

Categories (1) and (2) cover the traditional forms of aid, namely trade-related technical assistance and capacity building, while categories (3) to (6) are an expansion of the aid for trade agenda. The task force also recommended that aid for trade build on the existing trade-related assistance mechanisms, similar to the Integrated Framework that was set up in 1997 to assist LDCs, and the Joint Integrated Technical Assistance Programme, which assists African members to participate in the WTO.³

Rich nations are increasingly keen to use the aid for trade package to resume the recently suspended WTO negotiations. Japan, for example, has said that it would pledge US\$10 billion to help train and build export capacity for LDCs. Similarly, the European Union has committed to increase its spending on trade-related aid to LDCs to US\$1.2 billion a year. The EU trade commissioner, Peter Mandelson, proposed to

allow duty-free exports from 32 countries, including nations with small economies. 'We need this down payment for developing countries here in Hong Kong because this is a development round and because it would pave the way for serious development gains ... which will come from the core market access negotiations', said Mandelson. Meanwhile, the US trade representative, Rob Portman, stated that his country had prepared a plan to make similar increases in trade aid and to widen its duty-free imports from LDCs. Portman clarified that the US offer would expand on current trade promotion programmes, such as the African Growth and Opportunity Act and General System of Preferences (GSP).⁴

Additional aid will also come from the World Bank and the International Monetary Fund (IMF). The elements of the two institutions' aid for trade package include:

- an increase of World Bank lending for trade from US\$1.4 billion in financial years 2001-2003 to \$3 billion in financial years 2004-2006;
- an increase of the Integrated Framework for trade-related technical assistance from US\$30 million to US\$400 million, with a new window for financing activities identified in diagnostic studies;
- a proposal for a dedicated fund to provide financing for regional projects; and
- 'strengthened assessment of adjustment needs.'⁵

Problems with Trade Liberalisation

When it comes to the reality of trade liberalisation projects, the picture is much different from the projection. It is also inter-

esting to note that even the current projection of global gains from full trade liberalisation is less optimistic than some had antici-

3. See Carin Smaller, 'Can Aid Fix Trade: Assessing the WTO's Aid for Trade Agenda', Institute for Agriculture and Trade Policy, September 2006, p. 4.

4. See Emad Mekay, 'More Aid-for-Trade Carrots Offered Poor Nations', <http://ipsnews.net/news.asp?idnews=31402>.

5. 'IFI "aid for trade" carrot ahead of Hong Kong trade summit', Bretton Woods Project, 21 November 2005, <http://www.brettonwoodsproject.org/art.shtml?x=438378>.

pated earlier. The projections dropped from \$832 billion to \$287 billion; the developing countries' share fell from \$539 billion to just \$90 billion. Prior to the 2003 Cancun ministerial, the World Bank had projected the gains from full trade liberalisation at more than \$500 billion for the developing countries. After the Hong Kong ministerial in 2005, the projections showed a 'likely Doha scenario' of just \$16 billion, out of a global total of \$96 billion. With the adjustment made for the special and sensitive products in agriculture, developing country gains came to just \$6.7 billion out of a total of \$38.4 billion. In other words, \$ 6.7 billion is the total welfare gain that is expected from a successful Doha Round. This gain is shared by 110 developing countries.⁶

Those are the figures based on the World Bank report that Lamy praises so much. According to the World Bank, this scenario corresponds to '[a]dding a 50 percent cut to non-agricultural tariffs by developed countries (and 33 percent by developing countries and zero by LDCs) to the tiered formula cut to agricultural tariffs'. The expected number of the population living with less than one dollar a day in 2015 will be reduced by only 2.5 million (of whom 0.5 million are in sub-Saharan Africa) compared with the projected baseline for 2015 of 622 million (of whom 340 million were in sub-Saharan Africa).⁷

Recent research from a UK non-government organisation, Christian Aid, found that international financial institution-induced trade liberalisation has cost sub-Saharan Africa \$272 billion over the past 20 years: 'Had they not been forced to liberalise as the price of aid, loans and debt relief, sub-Saharan African countries would have had enough extra income to wipe out their debts and have sufficient left over to pay for every child to be vaccinated and go to school'.⁸

Another report, entitled *Sahel: A Prisoner of Starvation?*, finds the African region reeling from a free market famine. 'The 2005 crisis in Niger highlighted the tragic limits and shortcomings of market-based food security policy', said Frederic Mousseau, the Oakland Institute's senior fellow and a co-author of the report. 'While there was food in the markets and Niger continued food exports in 2005, domestic food prices sky rocketed almost 150-200 percent. While 63 percent of the population lives on less than \$1 a day, in July 2005 a Nigerian farmer paid more for a kilogram of millet at the local market than a European or an American consumer paid for a kilogram of rice in the supermarket.' The report found that these high food prices resulted in reduction in non-food expenditures such as health and education and the sale of livestock and even land, jeopardising the future of the population and driving more people into poverty and landlessness.⁹

Still about 'Carrot and Stick' Approach

Let us now examine some of the comments by developing country delegations about this aid for trade package.

The assistant director of Tanzania's Ministry of Industry and Trade, Bede Lyimo, once said that aid for trade should be de-linked

6. 'Restricting Special Products and Special Safeguard Mechanisms in The WTO Doha Round Will Wipe out Indian Farmers', press statement by India Civil Society Coalition, New Delhi, 26 June 2006.
7. K. Anderson & W. Martin, *Agricultural Trade Reform and the Doha Development Agenda*, World Bank Policy Research Working Paper 3607, May 2005, p. 16 and table 12, p. 40.
8. 'IFI "aid for trade" carrot ahead of Hong Kong trade summit', Bretton Woods Project, 21 November 2005, <http://www.brettonwoodsproject.org/art.shtml?x=438378>. Christian Aid commissioned an expert in econometrics to work out what might have happened had trade not been liberalised. The work was reviewed by a panel of academics. The model looked at what trade liberalisation has meant for 32 countries in Africa, Asia and Latin America.
9. Frederic Mousseau and Anuradha Mittal 2006. *Sahel—a prisoner of starvation?, A Case Study of the 2005 Food Crisis in Niger*, <http://www.peoplesfoodsovereignty.org/content/view/64/30/>.

from the Doha negotiations. Linking the two could make it harder to get agreement on either, he said. In some ways, aid for trade means 'going back to square one' for Tanzania. Tanzania some years ago made the decision to focus on trade preferences over aid, because aid was not working as a development tool. However, preferences programmes have not worked in favour of Tanzania either.¹⁰

Love Mtesa, the Zambian ambassador, made a similar statement: 'Economic liberalisation is not a panacea and it must be properly guarded. In Zambia it has led to unemployment and closure of Zambian companies. If aid for trade is to make sense it must address supply side constraints, and at the moment we cannot talk about trade-offs. Trade-offs are only possible with countries that are of equal level of economic development. We have a saying that says if two elephants fight, it's the grass that suffers. We want all to be able to negotiate, and trade-offs must be a result of the negotiations. And aid for trade is a concept that has not yet been properly defined. We want to know what it involves.'¹¹

Irene Ovonji-Odida, a member of the East African Legislative Assembly, said: 'It's ironic that the WTO does not stick to its own principles on transparency and predictability. There are processes going on that we know nothing about. We know as parliamentarians who have been present in negotiations that our trade ministers, even our heads of states, get calls from Washington and Brussels when our ministers fight for our national interests. And at the end of the day, it's our constituencies that suf-

fer. It is this process that we are concerned about.'¹²

Sheila Kawamara Mishambi, a member of the East African Legislative Assembly, said: 'We are not in support of aid for trade. It is a smokescreen to smuggle in other issues that do not benefit us. Let the WTO stick to what it is supposed to do. Simply, conventional aid has not proven to solve African problems. Good will for funds has in the past resulted in resources taken out of our countries. It has indebted Africa. As far as we are concerned, a discussion of aid does not belong in the World Trade Organisation.'¹³

Dipak Patel, the Zambian trade minister, who coordinates the LDCs in the World Trade Organisation talks, was unimpressed: 'This aid for trade package is totally insufficient as a carrot being offered to least developed countries. This amounts to at most \$2 million per country per year for technical assistance, capacity building and assistance in project preparation.'¹⁴

At the WTO General Council on 10 October 2006 in Geneva, member countries endorsed the recommendations of the task force. Developing countries stressed the need to operationalise aid for trade, and said that there should be no conditionalities attached. The aid should also be in the form of grants or donations. Bangladesh, on behalf of the LDCs, argued that for aid for trade to have an impact, it must be adequately funded. The funds must be made available a grants and without conditions. This will require a change in the culture of the multilateral institutions and the countries concerned.¹⁵

10. 'Aid for Trade—Another Empty Promise', 14 December 2005, <http://www.focusweb.org/content/view/752/92/>.

11. *ibid.*

12. *ibid.*

13. *ibid.*

14. 'IFI "aid for trade" carrot', *op. cit.*

15. Kanaga Raja, 'Lamy outlines "parameters" to conclude Doha Round, as countries voice concerns at WTO General Council meeting', SUNS, Geneva, 10 October 2006.

Civil Society Positions

Many international civil society groups have voiced concern about the aid for trade package. Guy Ryder, the general secretary of the International Confederation of Free Trade Unions, for example, said that 'trade-related development assistance is certainly desirable, but it must not become a pretext for arm-twisting by industrialised countries that obliges developing countries to mortgage their future industrial development and public services in exchange'. Other analysts of the new aid package to the LDCs said that the existing offers from the developed countries would do little to improve the current situation of the poorest nations. Those countries have been accorded similar exceptions and extended time periods to implement some trade agreements in the past. 'It has been a practice of the WTO to offer the poorest members one or two carrots to broker a deal', said Tanim Ahmed, an activist who monitors the LDCs. The package may not be as promising as portrayed by trade officials either, they say, since there are no clear pointers as to how it would enhance the production capacity of the LDCs and help them diversify their exports.¹⁶

Lori Wallach, director of Public Citizen's Global Trade Watch, an NGO from the US, said: 'This development package proposal is an attempt to change the subject from the failure of the WTO talks; it actually highlights the crisis at the WTO when the Bush administration has to cook up a development package to try to get the developing countries to not walk out of the negotiations of the development round! Meanwhile, the only thing worse than a bad, anti-development deal, is one that is based on a lie: the US trade representative cannot deliver on zero tariff quota for least developed countries' goods, which is a key element of this proposal, without congressional approval,

and Congress opposes the proposal. Given the US Congress is in a protracted budget crisis and the White House's budget is never approved, this is merely a pledge to ask Congress *again* to fund something that the USTR had asked for in the past.'

Walden Bello, director of Focus on the Global South, a well-known NGO based in Thailand, also criticised this initiative: 'What we are talking about is a proposal that will increase the indebtedness of least developing countries to the north. Proposals to increase aid for trade funding, like today's announcement from the US, will require damaging concessions in the form of tariff reductions from developing countries in return. Such a trade-off would undercut efforts to promote development. Mounting evidence clearly shows that increased trade liberalisation does not benefit most countries, particularly developing countries.'

Caroline Lucas, a member of the European Parliament, said: 'From a European perspective, the aid for trade is a package of lies. Duty free and quota free has already been given. And the carrot that the commission wants to provide, it cannot possibly guarantee at a time when member states, especially the British presidency, are talking about slashing European budgets. We have seen through the veiled attempt to distract and shake developing countries and what we have demanded is real development incorporated in the trade agenda itself and not just something that is part of a side show. This is a massive diversion, a sweetened pill for the rest of the package on agriculture, services and NAMA.'¹⁷

The Institute for Agricultural Trade Policy in Geneva called the aid for trade package a 'major distraction', and pointed out that

16. Emad Mekay, *op. cit.*

17. 'Aid for Trade', *op. cit.*

proposals in the interest of African, Caribbean and Pacific country members were ignored because they are not classified as least developed countries. Other critics from civil society groups underlined the lack of new money available and the fact that

most is in the form of loans, which will put countries further in debt. They stressed that aid is not a substitute for strong multilateral trade rules that prevent dumping and protect countries' right to design domestic policies according to their people's needs.¹⁸

Conclusion

For the author, the whole package of aid for trade is another 'same song from the same singer'. It is very unlikely that this new package will bring a new direction in which poor nations will benefit from trade liberalisation. In other words, the aid for trade package will only be the same rhetoric that has kept emerging throughout the WTO's history. The package is another fragmented WTO approach that fails to address the whole question of the link between trade and development. In essence, the package is only the extension of the old technical assistance and capacity building mechanisms, which have failed to lift the expectations of millions who have been suffering from the impacts of trade liberalisation. Aid for trade, therefore, is another tool for a structural trade adjustment programme that is aimed at enhancing the link between domestic and international trade policies of the developing countries.

It is for this reason that many civil society organisations are in deep disagreement with the content of this package. Many members of the civil society groups see the package as the old techniques of distraction and bribery. The Doha Development Agenda is a deception which put development as part of the neo-liberal agenda. It is for this reason also that most members of civil society groups cannot accept the 'development' aspects of the WTO, particularly since development in itself is another name for a market-driven and corporate-driven agenda that in many cases fails to connect with

people's basic rights and basic welfare.

Aid for trade is a bargaining chip of developed countries to ensure that the Doha Round negotiations are completed by the end of 2006. Even worse, there will be a stick to punish any countries that fail to behave in accordance with the wishes of the developed countries. That is the approach that will be taken by the US, which is likely to threaten to stop its GSP facilities for countries that are vocal in the Doha negotiations. Given these circumstances, it is very important for developing countries and LDCs to remain united and determined in their fight against injustices in the WTO.

We need more alternatives to counter the overall agenda of the neo-liberal projects. It is time for us to have a people-driven development agenda against the neo-liberal Doha development agenda. Many alternatives have been put forth by different civil society groups around the world. What the WTO and countries have to do is to listen and try to comprehend these alternatives.

Our answer is beyond the horizon. The answer lies in the wish of the people of the world for a dignified life and a caring world. An ad hoc and partial answer is not what we need. What we need is an answer reflecting our new philosophy of humanity. It is about the future of humankind and how we treat our planet and relations between countries. It is about changing our minds and attitudes, even for the practical questions.

18. 'Aid for trade: "distraction" from a bad deal', Bretton Woods Project, 23 January 2006, <http://www.brettonwoodsproject.org/art.shtml?x=507701>.

Preferential Trade and Economic Cooperation Agreements in Asia: Motivations, Trends and Implications for WTO Participation

Rahul Sen*

1. Introduction

The regional financial and economic crisis that affected East Asia in 1997-98, and a continuing inability of the WTO to yield any substantial outcome to improve growth prospects of the Asian economies, have contributed to generating a wave of 'new regionalism' in Asia, with a plethora of bilateral and regional trading and economic cooperation agreements mushrooming globally, and increasingly in Asia after 2001. Asian 'new regionalism' is significantly more diverse in both scope and coverage than traditional regional trade agreements, and delves into issues much deeper than trade liberalisation—into regulatory measures and economic and strategic cooperation.

Preferential trade and economic cooperation agreements (PTAs), also often dubbed RTAs or FTAs, although proliferating since the 1960s (with the formation of the European Community and, subsequently, the North American Free Trade Agreement), have picked up pace much more rapidly since the launch of the Doha Development Agenda (DDA) in November 2001. Crawford and Fiorentino (2005) note that over 2001-03, 33 new agreements were notified to the WTO, with many others being negotiated but not yet notified. Currently all 146 WTO members, with the possible exception of

Mongolia, are parties to one or more of these agreements.¹ Many of the recent parties have been Asian countries that were earlier averse to bilateralism and regionalism and that used to be staunch supporters of multilateralism. The increasing embrace of bilateralism in part reflects these countries' increasing frustration with multilateral trade liberalisation.

Given the existing deadlock over farm subsidies and the expiry of the current US trade promotion authority next year, the prospects of reviving the Doha Round negotiations in the WTO appear dim, which increases the likelihood of PTAs dominating global trade policy, especially in Asia, in the near future.

This paper analyses the implications of Asia's ongoing PTAs and examines their implications for the WTO. The remainder of the paper is organised as follows. Section 2 analyses the motivations behind PTAs in Asia. Section 3 analyses the current trends in PTA proliferation in Asia. Section 4 analyses the perceived benefits from and Section 5 the concerns about continued proliferation of Asian PTAs. Section 6 analyzes the implications of Asian PTAs for the WTO, while Section 7 suggests some important research areas on PTAs that need detailed focus and concludes the paper.

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1. Mongolia is considering membership of the Asia-Pacific Trade Agreement (APTA).

2. Motivations for Proliferation of Asian PTAs

While being an important push factor, the prevailing deadlock in the WTO cannot be deemed the only motivation for proliferation of Asian PTAs, since they were also in existence well before the days of the WTO. In Asia, a further strategic impetus for countries to embrace regional economic and strategic cooperation through PTAs has been the need for greater economic coordination and cooperation to manage globalisation challenges, especially after the economic and financial crisis of 1997-98. Bilateralism in the Asia-Pacific is therefore being viewed by Asian policy makers as a tool of foreign and economic policy rather than just trade policy, following the US trend of using these agreements more as a strategic foreign policy tool rather than one of trade policy (Schott 2004).

PTAs in Asia, now more of a norm than an exception, are regarded by policy makers as effective and expeditious instruments for achieving stronger economic cooperation among 'like-minded' trading partners committed to multilateral trade liberalisation through the WTO. These agreements, largely providing preferential market access

in goods and services to signatories on a reciprocal basis, are by definition discriminatory against non-members.

While bilateral proliferation of PTAs is a reality, it is also observed that there are now increasing calls for a region-wide agreement in Asia that can facilitate the shaping of an Asian economic community in the near future (Kumar 2006). The prospects for this are being significantly debated in the wake of the first ever East Asian Summit (EAS) in Kuala Lumpur in December 2005, involving the ASEAN + 6 countries (China, India, Japan, Korea, Australia and New Zealand). There has also been a recent proposal by Japanese Trade Minister Nikai to create a Comprehensive Economic Partnership in East Asia, comprising the 16 participants at the EAS. The argument is that an Asia-wide regional grouping would provide more substantial welfare gains to all countries involved than engaging in separate bilateral PTAs, and the rest of the world would also benefit from an economically integrated Asia (Kumar 2004, 2006; Asher and Sen 2006).

3. Asian PTA Proliferation: Current Trends

Until 2001, the ASEAN Free Trade Area (AFTA), involving the 10 ASEAN members, and the South Asian Preferential Trading Agreement were the only two PTAs involving Asian economies. In both agreements, the focus was restricted to trade in goods. AFTA is now by and large fully implemented for the older ASEAN members, viz. Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, with the newer members expected to comply

with it by 2010. However, it is important to note that for some specific categories of products, some of the older ASEAN members have not yet fully complied with AFTA guidelines. It is also important to note that this agreement involves only a 40 per cent value-added cumulative rules of origin (RoO)² for non-originating goods, one of the simplest RoO to be administered under any free trade area.

The current wave of FTAs in Asia was ini-

2. Rules of origin refer to the conditions that determine preferential treatment for import of goods in a PA. Cumulative RoO involve using a rule that permits manufacturing or processing operations that have been carried out successively in different countries belonging to the same geographic region or to the same group (e.g. ASEAN) to be treated cumulatively for purposes of applying the RoO criterion.

tiated by two events. The first was the signing of a bilateral FTA involving Singapore and New Zealand in 2001, the Agreement between New Zealand and Singapore for a Closer Economic Partnership. Notably, this agreement involved no exclusion of products from its tariff elimination list and was very comprehensive, covering liberalisation and facilitation of trade in services, investments, trade facilitation, government procurement and intellectual property protection, thus setting a high standard in PTA negotiations. The agreement signalled the intention of Singapore to enter into WTO-plus FTAs that were consistent with the WTO, and also provided avenues to negotiate complex issues bilaterally on which consensus had not yet been reached multilaterally.

Taking serious note of this shift of Singapore towards bilateralism, several other ASEAN countries—Thailand and, more recently Malaysia, the Philippines and Indonesia—subsequently jumped onto the bilateral FTA bandwagon and are now negotiating several agreements. Indonesia, the largest ASEAN member and the only one to resist entering into PTAs so far, has already begun its first negotiations with Japan, and proposals for bilateral deals are being contemplated with a number of other trading partners, including the US and India. This is an important indication of the domino effect from other PTAs of ASEAN.

The second event was the sudden announcement of an ASEAN-China FTA at the ASEAN summit in the same year, 2001. This triggered a domino effect on ASEAN's other major trading partners in Asia, viz. Japan, South Korea and, subsequently, Australia and New Zealand, who sought similar bilateral pacts with ASEAN and also with those members of ASEAN who were like-minded in seeking a first mover ad-

vantage by establishing a bilateral PTA before the regional deal could be concluded.

Several recent studies (Aggarwal and Urata 2006; Dent 2006; Sally and Sen 2005) note that trade policy in Asia is currently dominated by PTAs with major Asian countries, hitherto strong advocates of multilateralism, now creating their own PTA hubs around themselves (Sen 2006; Plummer 2006).

With new bilateral and regional initiatives being announced frequently, it is very difficult to track the number of existing and proposed PTAs in Asia at any given time. Nevertheless, given that more comprehensive data on PTAs are now forthcoming,³ the following trends and important features seem to emerge based on available data and research.

Over the period 2001-06, after the launch of the Doha Round, the total number of PTAs involving Asian economies (including central and west Asia) increased from 48 to 183, with nearly 100 of them being still proposed or under negotiation, compared to only five in 2001. This is a reflection of the increasing frustration of Asian countries with the Doha Round and the resultant domino effect of every Asian country entering into a PTA in order to avoid the discrimination faced by non-members.

EAS members have proposed or negotiated a significant number of the PTA initiatives launched in Asia since 2001. While India, with 21 PTAs, has the highest number of agreements being proposed or negotiated, Singapore has implemented the most PTAs in Asia that are currently in force, with New Zealand, Japan, the European Free Trade Association (EFTA) countries, Australia, US, Jordan, India, Korea and Chile, 11

3. A comprehensive database on Asian FTAs is now available at the Asia Regional Integration Centre (ARIC), at <http://www.aric.adb.org/ftatrends.php>.

out of 17 of agreements already being implemented. Australia and New Zealand also have implemented most of their PTAs. However, most other Asian countries have a rather low degree of implementation. Many Asian PTAs are therefore either at the stage of being studied before formal negotiations, or are being negotiated. Thus, the likely content and coverage of these PTAs and their possible impacts on regional and global trading patterns cannot be comprehended at this stage.

Third, current PTA activity in Asia ranges from limited agreements on trade in goods with large exclusion lists and limited product coverage, to highly comprehensive bilateral agreements, especially those involving Singapore, which cover not just trade in goods, but also services, investments, non-tariff barriers and regulatory measures for trade and investments, as well as complex issues of government procurement, competition policy and intellectual property protection, which have not yet been put on the agenda for multilateral negotiations under the WTO (Sen 2006). Thus, while Singapore has already set high standards in negotiating WTO-plus comprehensive agreements, most of the other agreements involving EAS members (with the possible exception of Australia and New Zealand) have not included these issues in negotiations so far, or have very broad provisions that do not include much substance in terms of liberalisation and regulatory provisions (Banda and Whalley 2005).

Fourth, varieties of RoO to determine preferential treatment for non-originating goods have been applied or are currently being negotiated across Asian PTAs. Sen (2006) observes that while the value-added rule is generally applied across Asian PTAs, a mix of other criteria such as the change in tariff classification and other restrictive rules have also often been applied for certain

products. In the majority of cases, restrictive rules seem to have prevailed over simple ones (see Sen 2006 for ASEAN, China and India).

Fourth, while regional economic integration is a clear motive of these PTAs, their proliferation in Asia has also involved cross-regional trading partners from North America, Africa and Latin America.⁴ The EU is beginning to be involved in Asian PTAs as well, with the recent announcement of a trade pact with India and ongoing studies of the feasibility of an ASEAN-EU economic partnership. Singapore has already entered into a plurilateral and cross-regional Trans-Pacific Strategic Economic Partnership agreement involving Brunei from ASEAN as well as New Zealand and Chile, which is expected to operate on the basis of open regionalism, and which is open for accession to other members on similar terms and conditions (Sen 2006).

Fifth, there is a great deal of overlapping among the PTA partners of ASEAN and individual member countries. Thus, while Singapore has already implemented its agreements with New Zealand, Australia, India, Korea and Japan, it is also a negotiating member in ASEAN-wide FTA initiatives with these countries. Similarly, Malaysia and Thailand, which are also negotiating bilateral agreements with Japan, India, Australia, New Zealand and South Korea, are also part of the ASEAN-wide negotiations with these same countries (Rajan and Sen 2005).

Sixth, in terms of estimated market size (more than 2.5 billion consumers), the biggest PTA currently implemented in Asia is the Asia-Pacific Trade Agreement (APTA) (Sen 2005a and <http://www.unescap.org/tid/pta%5Fapp/viewagreement.aspx?id=APTA>), which is restricted presently to tariff concessions on goods. There are three

4. ASEAN is contemplating FTA negotiations with the US, EU, Pakistan and Russia.

distinctive aspects of APTA, compared to other PTAs in Asia. First, it is the only PTA that has the membership of the two largest economies of Asia, India and China. Second, its membership (currently Bangladesh, China, India, Korea, Laos and Sri Lanka) spans Asia, not being confined to East Asia or South Asia. Third, the agreement consists of a mix of economies of different sizes and different stages of development, which allows the participation of not just high-income and large middle-income economies, but also small low-income economies, and makes them part of the economic integration process, reducing the opportunity for discrimination against smaller developing countries. This is also because of its simple RoO (35 per cent value added), providing the opportunity for expansion in both scope and coverage in the near future. Indeed, Mongolia, hitherto the only WTO member outside any PTA, is likely to become a member of APTA. Japan, New Zealand, Macao, Nepal, Myanmar, Iran, Hong Kong, the Philippines, Pakistan, Indonesia, Malaysia, Brunei, Georgia and Fiji have already expressed interest in becoming parties to this agreement.

Seventh, most of the Asian PTAs are yet to be notified to the WTO. According to ADB (2006), 143 of the existing 183 PTAs have not been notified, while 14 of the Asian PTAs have been formally notified to the WTO under either GATT Article XXIV or GATS Article V, which largely include Singapore's bilateral PTAs with the

developed members, viz. New Zealand, Australia, the EFTA, US and Japan. This implies that most Asian PTAs are currently unable to be screened for WTO consistency.

Finally, bilateral trade shares with a number of Asia's PTA partners outside Asia is insignificant, many partners not even accounting for 1-2 per cent of total merchandise trade of individual members (Sen 2006). This indicates that gains for Asia from merchandise trade through a PTA with these countries are likely to be minimal. This is particularly so in the case of Asian countries' PTAs with Latin American and Middle Eastern countries. Presumably, the rationale behind these PTAs is to expand market access and engage in economic cooperation in other areas, viz. services, investment and other areas, such as infrastructure development and energy cooperation, whose importance in the trading relationship cannot be suitably quantified.

The above indicates that PTA activity in Asia has been prolific over the past five years, and it is an emerging reality that Asia will have to cope with in the near future. Given the current shares of trading partners among Asia's PTA partners, it may be estimated that if the proposed and currently negotiated PTAs are implemented and their preferences fully utilised, more than half of ASEAN's, China's and India's merchandise trade is going to be driven by PTAs.

4. Perceived Benefits from Asian PTAs: Policy Makers' View

Why does Asia seem to prefer the PTA route to trade liberalisation? The general view among many Asian policy makers is that there are several benefits from entering into such agreements, apart from greater market access and lowering business costs by reducing tariff barriers.

First, PTAs that involve economic partnership agreements, which are comprehensive and involve deeper liberalization beyond tariff reduction on goods, can provide a catalyst for enhancing the pace of multilateral trade liberalisation. This is through a domino effect on non-

members, who would want to avoid being discriminated against and are therefore forced to liberalise faster, as is now evident in Indonesia. Further, PTAs serve as a “testing ground” for negotiating complex issues bilaterally and can set a precedent for negotiating them multilaterally among a larger group of countries (Sen 2006).

Second, it is also believed that legal provisions of PTAs can lock in policy reforms—particularly reducing cross-border impediments to trade and improving service regulation and the overall investment climate—which are difficult to undertake at the multilateral level. As observed by the World Bank (2004), PTAs have the potential to motivate and reinforce broader reforms in domestic policy, and can be designed to contribute to a more stable political environment and investment climate, thus improving growth prospects. However, as observed earlier, barring Singapore, Australia and New Zealand, most Asian countries have neither made any significant efforts to reduce trade barriers (particularly non-tariff ones) nor negotiated services and investment liberalisation in their PTAs, thus following a ‘trade light’ approach to liberalisation that doesn’t initiate any concrete domestic reforms.

The third and perhaps one of the most important perceived benefits from PTAs is their ability to provide a positive signal towards enhancing economic and strategic cooperation and addressing regional security concerns. This was one of the motives for India negotiating a comprehensive economic cooperation agreement with Singapore, which provided a strong signal of India’s desire to forge economic and strategic links with ASEAN and East Asian countries. Given the economic size and structure of the two economies, Singapore has much more to gain in trade and invest-

ment through this PTA, but the signalling effect is what seems to have motivated India.

In a similar manner, the majority of the recent PTAs, which are in the form of broader economic partnership agreements, facilitate members to enhance their strategic as well as economic links, since both members become interested in liberalising and facilitating trade, investment and economic cooperation, and are therefore committed to maintaining peace and stability. Inclusion of economic and technical cooperation in areas such as energy, IT and industrial cooperation embody the strategic element of these PTAs. This is particularly an important motive for those Asian countries that need to address regional security concerns. In the words of a Singapore policy maker, Liang (2005) notes:

Beyond advancing its economic interests, Singapore believes that these intra and inter regional FTAs help to build a web of strategic linkages for Singapore within the region and with countries outside the region. They serve the broader strategic interest of anchoring the presence of its major trading partners in Southeast Asia, and ensuring that they remain stakeholders in Singapore and the region. This web of interlocking economic and strategic interests helps contribute to regional stability, security and prosperity.

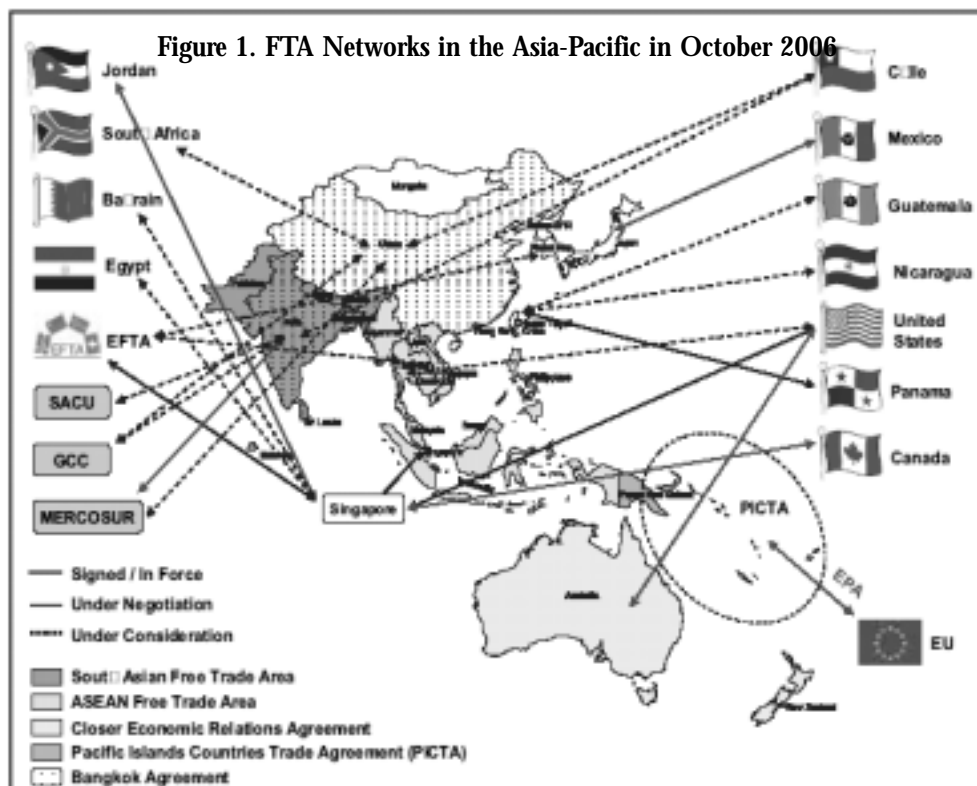
The above perhaps explains why Asia is seeking PTAs with Middle Eastern and Latin American countries whose economic links with them are at best minimal. Aggarwal and Urata (2006) explain in detail the political and strategic compulsions behind PTA negotiations in Asia, and their implications for the functioning of regional and multilateral trading institutions such as the Asia-Pacific Economic Cooperation and the WTO. Their study corroborates the view that PTAs in Asia are driven largely by strategic and political, rather than economic, considerations.

5. Concerns about Asian PTAs: How to Manage the Noodle Bowl of Diverse Agreements?

While there are such perceived benefits for Asia from entering into PTAs, the literature on preferential and bilateral trade and its welfare implications for developing countries (see Bhagwati 1993; Baldwin 1993; Bhagwati and Panagariya 1996; Winters 1998; World Bank 2004; Newfarmer 2005) has traditionally argued that the bilateral route to trade liberalisation is a Pareto-inferior and second best option, unlikely to be welfare enhancing compared to the multilateral route, since it is inherently discriminatory and may lead to trade diversion, when a PTA shifts import sources from a more efficient to a less efficient supplier in a member coun-

try, thereby reducing national welfare. In the current context, wherein investment is also being negotiated through PTAs, the scope for such discrimination extends to investment diversion as well. However, the difficulty of evaluating the precise impact of these PTAs on economic welfare by applying modelling techniques of modern trade theory is compounded by the current complexity of issues negotiated in Asian PTAs (Banda and Whalley 2005)

The concerns about the proliferation of Asian PTAs are manifold. First, these agreements are creating a complex hubs and spokes network of overlapping PTAs,



Source: Extended from Crawford and Fiorentino (2005).

The Bangkok Agreement is now known as Asia-Pacific Trade Agreement (APTA).

with a potential for trade diversion away from the spokes and towards the emerging hubs of these PTAs. As observed in Figure 1, there is no single hub for Asian PTAs, with ASEAN as a group, as well as Singapore, Thailand and increasingly others outside ASEAN, viz. India, China and South Korea also creating their own PTA hubs, creating a multitude of hubs, with a spoke country in one PTA becoming a hub in another. This is creating a 'noodle bowl' of PTAs (Baldwin 2006), which reduces the overall welfare impact, especially as each of them enters into a bilateral deal with the same trading partner, with varied and complex rules of origin.

The second concern stems from administering a variety of RoO that are often complex and costly for businesses to comply with, thus negating the very purpose of a PTA, to reduce business costs. It also provides increasing avenues for corruption, since customs officials can exercise significant discretion in deciding which tariff or rules to apply for a certain product (Newfarmer 2005). This brings up the importance of the degree of implementation integrity that these PTAs need, and also the establishment of an effective enforcement mechanism that can allow PTAs to work effectively (Asher and Sen 2006). In their absence, businesses will have to consider either using these agreements and therefore incurring additional costs for compliance (especially in cases where rules are complex and difficult to comply with) or continuing to pay the multilaterally agreed most favoured nation (MFN) tariffs for their goods, ignoring PTA preferences. Plummer's study (2006) of FTAs in Asia provides a grading of Asian FTAs, in which he indicates that even in Singapore's comprehensive and WTO-plus agreements, RoO are restrictive and limit the scope for trade expansion.

A third concern about Asian PTAs is uti-

lisation. It was recently estimated that AFTA, ASEAN's first regional FTA, which has some of the simplest RoO for tariff preferences, has remained grossly underutilised at about 5 per cent of total trade, many exporters preferring to pay the MFN tariffs instead, largely due to the very small margin of tariff preferences between the MFN and AFTA rates. Further, utilisation of PTAs would also entail adjustment costs. With new agreements proliferating every year and each PTA being different (requiring different conditions for compliance), the adjustment costs for an exporter to multiple countries could be significant. Further, if the business is a service provider, it will need to fulfil the entry requirements and conditions for granting temporary entry of professionals and national treatment for investments.

With the above adjustment costs involved, and minimal participation of businesses in the actual PTA negotiations (unlike those of the US and EU), it is not surprising that negotiations in current Asian PTAs have generated minimal business interest, raising concerns as to whether preferences under most of these PTAs would indeed be utilised. Asher and Sen (2006) note that this would not only require more business participation in PTA negotiations, but also a large degree of implementation integrity from all Asian countries.

With individual ASEAN members having already reached bilateral deals with major trading partners, an important unresolved issue is how these countries are to treat the ASEAN-wide agreements with the same trading partners, once they are enforced. It is not yet clear whether regional agreements would subsume these bilateral deals, therefore posing a concern as to their applicability and consistency in the negotiating framework (see Rajan and Sen 2005). With no common framework

for negotiations evolving so far in ASEAN, the possibility of bilateral deals

being subsumed by regional ones seems remote.

Are PTAs a Panacea for Domestic Reforms in Developing Asia?

Apart from differences in RoO, there are also dissimilarities in Asian PTAs regarding the major internal parameters (the depth of trade liberalisation commitments and sectoral coverage) that constitute the negotiating framework (see Sen 2006 for further details). The information on PTAs made available by the Asia-Pacific Trade and Investment Agreements database aptly demonstrates this divergence across not just ASEAN but also among the members of the United Nations Economic and Social Commission for Asia and the Pacific (<http://www.unescap.org/tid/pta%5Fapp/>), highlighting the fact that most of the current FTAs in Asia that involve developing countries as negotiating partners are too shallow in product coverage and liberalisation commitments, with complex and restrictive RoO.⁵

Notably, apart from Singapore and to some extent Australia and New Zealand, EAS members have not striven to implement comprehensive PTAs that also involve reforms for trade liberalisation. The 'trade light' approach by most of these countries implies that while Singapore, Australia and New Zealand PTAs may be designed as building blocks of economic integration, those of other Asian countries have not evolved that way, mainly due to differences in development levels. Unlike Singapore, most of the ASEAN members have a sizeable domestic sector and agriculture that provide an important contribution to their economies, which leads to political sensitivities that complicate negotiations. Further, Singapore, as a city-state and the most

developed member of ASEAN, is able to negotiate complex issues of product standards, government procurement, intellectual property protection and competition policy, many of which require stringent regulatory and institutional reforms. These issues are much more difficult to negotiate and implement in significantly populated middle-income ASEAN economies such as Malaysia and Thailand, in which the social and political implications could be far more significant, leading to greater opposition to PTAs.⁶

In the pursuit of quick PTAs, many developing ASEAN members are ignoring unilateral liberalisation and not pursuing important domestic economic reforms that are critical for their growth prospects and to sustain competitiveness. As observed by Sally and Sen (2005), the engine of liberalisation and regulatory reform in ASEAN countries has to be home-driven, with PTAs playing at best a supportive role. PTAs are therefore not a panacea for domestic reforms in most of developing Asia, and lessons from China and India are important for ASEAN in this regard, since both countries are pursuing unilateral liberalisation, apart from bilateral and multilateral tracks of trade policy, and have significantly improved their growth prospects.

This creates concerns that the PTAs currently proliferating in Asia are probably moving in the direction of being more of a stumbling than a building block for global free trade, and can indeed have adverse

5. Plummer (2006) observes that ASEAN FTAs that have involved developed country partners are fairly liberal in content and coverage, except for RoO.

6. This has already been demonstrated in the course of the Thailand-US FTA negotiations and the Malaysia-US FTA.

welfare consequences for developing countries. This is particularly the case if scarce negotiating resources are devoted to them and yet they remain underutilised and do not yield substantial economic gains. There is a possibility that the perceived benefits from greater liberalisation and stronger strategic links may override these con-

cerns, but the net economic impact of these PTAs remains unknown. However, it is reasonably clear that many Asian countries continue to negotiate PTAs without proper detailed preparation and understanding of the possible economic benefits and losses (Dent 2006; Aggarwal and Urata 2006).

6. Implications for Asia's Participation in the WTO

In spite of the rapid PTA proliferation, most Asian countries remain committed to the WTO and are hopeful of a revival of the Doha Development Agenda negotiations. However, the fact is that proliferation of Asian PTAs is leading to inefficient utilisation of scarce negotiating resources that could otherwise be devoted to multilateral negotiations in the WTO. This is particularly so for negotiators of low- and middle-income developing countries in Asia that are small physically and economically and lack the technocratic and institutional capacity to negotiate bilateral PTAs. In this way, there is some diversion of negotiating resources away from the WTO and towards PTAs.

Second, small low- and middle-income Asian LDCs that do not have adequate bargaining power in PTAs are in danger of being forced to make too many compromises that are inconsistent with their current levels of economic development and can have adverse implications for them in the long run. In fact, some of them may even be shut out of preferential access to the markets of the bigger powers, being economically unattractive as a PTA member. These countries would likely be the

most adversely affected, if the WTO were to weaken further and negotiations were to stall completely.

Third, middle to higher income developing countries in Asia, which are currently the most active PTA partners, might achieve short-term welfare gains from trade-light PTAs,⁷ which could further alienate them from the WTO. However from a development economics perspective, if these PTAs are not implemented properly and complemented by a stronger reform agenda, they are unlikely to have a substantial impact in reducing poverty. In the longer run, therefore, these countries would need to fall back on multilateral institutions, including the WTO, to help them achieve their development goals.⁸

Fourth, if the noodle bowl of Asian PTAs is not managed properly and lacks implementation integrity, as is the present situation, trade-related disputes among PTA members are likely to expand rapidly, which could put further strain on the dispute settlement mechanism in the WTO, especially in those cases where a bilateral mechanism is not effective or is improperly designed.

7. Future Research Directions and Concluding Remarks

PTAs are now a reality in Asia, with countries creating a hub and spokes network of

them. They constitute a wide variety, from the most comprehensive and WTO-plus

7. Ravenhill (2006) terms this 'liberalization without political pain'.

8. This, of course, is subject to the DDA negotiations being restarted, and Asian countries, along with the US and the EU, will be important in this process.

PTAs of Singapore, Australia and New Zealand to trade-light PTAs among other middle- and low-income developing economies. While being intended as strategic instruments for achieving closer economic cooperation, they have a potential to be building blocks towards deeper economic integration. However, at present, there are valid concerns that if not properly designed and managed, these PTAs could end up being a stumbling block to integration efforts. Implementation integrity among PTA members remains a key to their success.

Empirical and policy research needs to be much more forthcoming in this area in order to understand fully the economic ramifications of these PTAs. While recent research has focused on the evolution, motivation and implications of Asian PTAs, and available data on their proliferation have also improved significantly,⁹ detailed empirical studies quantifying the actual impact of these PTAs on economies have been lacking. Specifically, there are no comparative studies in Asia that have attempted to analyse a pre- and post-PTA situation, with the possible exception of Sen (2005b). Except for a recent survey on AFTA, there have also been very few detailed studies on business perceptions of these PTAs and business views on how they can better strengthen a country's economic and strategic interests. The actual adjustment costs borne by many of low- and middle-income developing countries in complying with some of the PTA rules and regulations also need to be researched. These issues are going to be extremely critical when all the current 183 (or more) Asian PTAs are implemented and their effects are felt, not just by businesses and producers, but by all sections of the society.

To have a substantial developmental impact, Asia would therefore need to design its FTAs to promote deeper integration and institutional reforms and greater functional harmonisation, as argued by Newfarmer (2005) and Bonapace and Mikic (2006). It needs to ensure that the welfare gains from PTAs outweigh the adjustment costs that businesses incur in order to utilise them (Baldwin 2006). While a guideline for future negotiations involving certain best practices is helpful in bringing about some consistency among the FTAs (see Plummer 2006), implementation integrity has to be high in order for FTAs to end up being building blocks towards Asian economic integration. This is yet to be tested in Asia.

With the current deadlock in the WTO, achieving a best outcome for Asia through multilateral trade liberalisation, although economically preferable, remains politically difficult. Under these circumstances, Asia will have to rely on the second best outcome, i.e. PTAs, which need to be much more consistent among countries, have greater coverage and liberalisation content and be high in implementation integrity. This doesn't appear to be the case with most Asian PTAs at present. A more optimal short-run outcome from trade liberalisation would probably be forthcoming if domestic reforms were to complement the PTA efforts in middle- and lower-income developing Asia. In the long run, however, it would still be in Asia's interest to revive the WTO, because any short-term welfare gains from PTAs are unlikely to have a substantial impact on growth and reduction of poverty. Detailed research on the lines suggested earlier needs to be undertaken to understand the economic impact of these PTAs on trade and investment decisions globally.

9. See ADB (2006) and UNESCAP's APPTIAD database.

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The Nature and Logic of FTAs: The Case of US FTAs in Southeast Asia

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This article argues that bilateral or regional free trade agreements ensure rapid, deeper and wider implementation of neo-liberal economic policies. Furthermore, FTAs promote investor rights and have a tendency to exacerbate existing inequalities between developed and developing countries.

In addition, FTAs are strategically used by developed countries to extract higher requirements and deeper commitments from developing countries than were agreed

at the WTO. Moreover, developed countries have reinstated negotiations on issues that have been rejected at the WTO and are considered anti-development, such as the Singapore issues. In this sense, FTAs provide an avenue for developed countries to isolate individual developing countries, extract gains and bring back trade rules that have been rejected collectively by the developing South. Essentially, FTAs are not about promoting trade and investment but about control of trade.

The Logic of an FTA

FTA logic is as follows: elimination of trade barriers in both countries will benefit consumers and producers. Consumers will benefit from lower prices with more choices, and producers benefit from an increased export market with lower costs. Here, the casualty will be local firms that are unable to compete without protection against foreign competition. In the end 'gains to winners exceeds the losses to the losers and so the country as a whole benefits from trade'.¹

FTAs require partner economies to eliminate tariffs, non-tariff barriers, technical barriers to trade, including sanitary and phyto-sanitary barriers, and erect the highest levels of protection for intellectual property rights (IPR), issues that are considered impediments for increased trade and investment. In addition, they require partner economies, especially

weaker nations, to adopt regulatory harmonisation or convergence with regulatory systems of developed nations, such as custom procedures, standards, conformity assessment procedures, certification etc.

Furthermore, they aim to deal comprehensively with trade in services, investment, competition and transparency in government procurement, including a dispute settlement mechanism. FTAs aim to provide preferential market access for goods, services and, investment for partner economies.

These agreements involve chapters on labour and the environment. But US FTAs, for example, do not have effective powers to enforce labour and environmental standards because both governments and corporations are against high labour and

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1. Dean Baker, July 2006. 'A Korea-U.S. trade agreement: what is at stake?' Center for Economic and Policy Research. <http://www.cepr.net/pages/internationaleconomicissues.htm>.

environmental standards. The US-Jordan FTA, considered the only US agreement with the highest level of protection and promotion of workers' rights, demonstrates the lack of enforcement on the part of governments on labour issues. The National Labour Committee Report provides documented proof of the horrendous working conditions of migrant labour in textile companies in Jordan even after the US-Jordan FTA was signed.²

What does the business community demand in an FTA? It seeks to remove non-tariff barriers such as weak judiciaries, inefficient customs procedures, divergent standards and poor IPR enforcement in order to support its business interests.³ Furthermore, the business community demands market access, property rights,

sanctity of contracts, respect for legal due process, transparent administration of justice, open regulatory processes, stable tax structures and high standards in intellectual property, transparency and customs.⁴

FTA negotiations do not follow the principle of special and differential treatment and less than full reciprocity, as in the WTO. There, developing countries are not obliged to liberalise their markets to the same extent as developed countries. By contrast, FTAs are premised on reciprocity, ensuring that trading partners accept similar levels of obligation. This 'equal treatment of parties that are unequal in capacity is likely to result in unequal outcomes', thus exacerbating existing asymmetries between developed and developing nations.⁵

Motivations for Bilateral and Regional Free Trade Agreements

Nations approach trade agreements in a three-dimensional fashion: bilateral, regional and multilateral agreements simultaneously. However, at present major trading nations such as the US, EU, Japan and China have adopted a bilateral approach as the preferred strategy.

The increase in the number of bilateral and regional trade agreements since 2000 can be attributed to four reasons.

The failure of the WTO trade talks in Seattle in 1999 and the Doha Round in 2001 and

its indefinite collapse in July 2006⁶ prompted developed countries such as the US, EU and Japan to promote bilateral and regional FTAs aggressively.⁷

Second, competition for market control and access and economic and investment opportunities in an expanding Asian market is perceived as critical for maintaining leading positions in the global market place.

Third, bilateral and regional trade agreements allow the possibility for developed countries to demand higher

2. <http://www.nlcnet.org/live/article.php?id=10>.

3. 'Promoting Trade, Investment Tops U.S. Economic Agenda in Asia', text of prepared testimony of assistant secretary of state for the Bureau of East Asia and Pacific Affairs James Kelly before the House International Relations Subcommittee on Asia and the Pacific, 25 June 2003, <http://www.usconsulate.org.hk/ushk/state/2003/062501.htm>.

4. Remarks by Martin Sullivan, chairman, US ASEAN Business Council Regional Board Meeting, 7 March 2006, http://www.us-asean.org/board/sullivan_speech_bangkok.asp.

5. Martin Khor, 'Bilateral Regional Trade Agreements: An Outline of Elements, Nature and Development Implications', Third World Network, http://64.233.167.104/search?q=cache:zi_erpXpl6gJ:www.twinside.org.sg/title2/FTAs/General/ABilateralOrRegionalFTAs-AnOutline.doc+Khor+%22Bilateral+Regional+Trade+Agreements%22&hl=en&ct=clnk&cd=2.

6. <http://www.iht.com/articles/2006/07/25/business/trade.php>.

7. <http://www.brownfieldnetwork.com/gestalt/go.cfm?objectid=A64991EE-D866-FD06-E172CE3080AD2AB3>.

standards and deeper liberalisation commitments than negotiated at the WTO and to introduce the Singapore issues as part of the negotiation framework.

Fourth, at the bilateral level, developed countries need not deal with protracted and

formidable opposition and counter-proposals of developing country groupings such as the G-22 or G-33. At the bilateral and regional free trade negotiations, individual developing countries are in a weaker bargaining position vis-à-vis developed countries.

Competition between US and EU for Market Control and Access

The US administration has noted, 'While we've been marking time, our competitors have been working, and they've been signing agreements ... While we have been delaying, they've been trading'.⁸ The EU position is best stated by an EU diplomat based in Asia: 'The EU surely strengthens the multilateral trading system, but at the same time, we will not put all our eggs in the same basket'.⁹ The same diplomat noted, 'It has not escaped our attention that in ASEAN, there has been a flurry of activity in relation to bilateral trade negotiations. Therefore, the EU cannot just sit on the sidelines and let all these things happen and go by'.¹⁰

The EU enhanced partnership with Asia requires EU corporations to compete with the US and Japan. In fact, in this design, European corporations' commanding presence in an expanding Asia and ASEAN is central to European global influence:

'ASEAN is not only back on its feet as one of the world's fastest growing regions, it's also being increasingly wooed by an array of Europe's competitors—including the US—seeking new economic partnerships and alliances in the area. To secure global influence, the EU must also become part of the "intense inter-weaving of economic ties" currently underway in South-east Asia'.¹¹

The race to conclude as many FTAs as rapidly as possible is premised on the need to control markets and beat competitors. This is the key to global economic dominance. Thus the pressure to secure markets and profitability for their respective corporations motivates the US, EU, Japan and China to enter into bilateral and regional trade agreements with developing nations or groups of developing countries such as ASEAN.

Business Interests in FTAs

Are FTAs meant to serve the interests of the business community? The Malaysian minister of trade and industry, Rafidah Aziz, certainly thinks so. She was quoted as arguing: 'FTA was an initiative which the private sector wanted and not the

government's initiative. She explained that the FTA meant market access for the business community. The Americans will carry the interest of their business community while we will carry the Malaysian business community's interest.

8. Cited in Greg Rushford, 'Risky Business', http://www.rushfordreport.com/2002/5_2002_Cover.htm.

9. Suparno Riyadi, 'EU, ASEAN view FTA to boost trade', Jakarta Post, 15 July 2005, http://www.bilaterals.org/article.php?id_article=2297.

10. *ibid.*

11. Islam Shada, 'A new era in EU-ASEAN relations?', Yale Global, 30 July 2003, <http://yaleglobal.yale.edu/display.article?id=2149>.

That is what the negotiations are all about ... Do not pre-judge the outcome of the negotiations. It is to meet the interest of each other's private sectors'.¹² Tommy Koh, Singapore's chief FTA negotiator, made a similar point.¹³ Clearly, then, FTAs are about businesses negotiating with each other facilitated by their respective governments.

How does business benefit from the FTAs? Business essentially benefits from an FTA at several levels:

- An FTA liberalises the economy—either immediately or gradually. However, it is often more rapid than the WTO.
- FTAs provide certainty to business by providing a predetermined and agreed framework. The FTA ensures transparency in the rules and regulations.
- FTAs guarantee investor rights.
- FTAs limit government intervention. Safeguard measures are agreed within the confines of the FTA and not unilaterally.
- FTAs facilitate further cross-border financial and capital flows.
- FTAs provide rules and regulations that are far more stringent than at the WTO and which are business friendly.
- FTAs push for harmonisation of laws in the region. However, the cost of the harmonisation process is borne by the developing country.

The role of business lobbies is central to US FTA negotiations. These lobby groups are made up of US multinational corporations located in Asia and involve local business support. Specifically, these MNCs either co-chair or host the

secretariats of the various business councils. Their purpose is to lobby and secure support from the US House of Representatives and Senate for the FTA ratification. They are also involved in lobbying media, NGOs and others. A country-specific US lobby group is established to support US FTAs.

The business lobby collaborates with the US trade representative in outlining the details of the widening and deepening of trade, services, investment and financial liberalisation, protection of US MNC interests and opening up of various sectors for US business participation. The US business community is consulted and updated throughout the negotiations. In fact, it is invited by the US trade representative to lobby with respective country negotiators while they are in the US.

In fact, the US trade representative is advised by the Trade Policy Advisory Committee system, which consists of 33 advisory committees with a membership of 1000 advisers from the private sector, academia etc. In this way, the US business lobby ensures that US trade policy and trade negotiation aims and objectives reflect US business interests.

The Singapore government established two lobby groups to win support and the US Senate's ratification of the US-Singapore FTA. The lobby groups were the US-Singapore Free Trade Agreement Business Coalition, the Singapore Business Coalition and the Singapore Congressional Caucus. The US-Singapore Free Trade Agreement Business Coalition was formed to mobilise support within the business community.¹⁴ It was co-chaired by three big US MNCs—

12. http://www.bernama.com/bernama/v3/news_lite.php?id=204716.

13. www.twinside.org.sg/title2/FTAs/General/8LessonsFromTheUSSingaporeFTA-Chang_Li_Lin_Web.doc, http://www.worldscibooks.com/business/etextbook/5542/5542_chap01.pdf.

14. The coalition includes the US-ASEAN Business Council, the US Chamber of Commerce, the Business Roundtable, the National Association of Manufacturers, the American Chamber of Commerce in Singapore, the Coalition of Service Industries and many other prominent US trade associations.

ExxonMobil, Boeing and UPS—and supported by more than 100 US companies to support the FTA.¹⁵

In Thailand, the business lobby group entrusted to lead the US-Thailand FTA is the US-Thailand Free Trade Agreement Business Coalition. It was tasked to promote the negotiation, passage and implementation of a bilateral agreement between the US and Thailand. It is made up of about 100 US MNCs. The secretariat of the coalition is hosted by the US-ASEAN Business Council and the National Association of Manufacturers.

The US-Malaysia FTA Business Coalition leads the charge to secure endorsement and passage of the US-Malaysia Trade Agreement. The secretariat of the coalition is the US-ASEAN Business Council. The steering committee of the coalition comprises the American Malaysian Chamber of Commerce, Coalition of Service Industries, Emergency Committee for American Trade, National Association of Manufacturers and the United States Chamber of Commerce. The purpose of the coalition is to mobilise support and build support in the US Congress for ratification of the FTA.¹⁶

Motivations Underlying US FTAs

FTAs are signed for strategic—geopolitical, security and economic—reasons:

- Examples of FTAs signed for strategic reasons are with countries such as Jordan, Morocco and Oman. These countries, whose trade volumes are less than 0.1 per cent with the US, are important for strategic reasons such as security, military operations and the US presence in the Middle East.
- When an FTA is signed, it forces other countries to comply with the minimum standards of the agreement or offer better terms to the US. For example, a US-Singapore FTA forces Malaysia and Thailand to provide similar or better minimum standards.
- US FTAs are WTO plus agreements. They include areas not covered in the

WTO and set higher requirements for developing countries than were agreed at the WTO.

- The US deepening of its strategic economic relationship with ASEAN can be understood in the context of a rapidly expanding Chinese economic, political and military influence in the region. The US is currently negotiating FTAs with individual ASEAN member states and has signed with ASEAN for a US-ASEAN FTA in the near future. In fact, the US posture could be premised on the notion that China's growing economic strength can translate into regional political ambitions that could potentially harm, parallel or undermine US hegemony in the region.

Issues and Challenges to Partners of US FTAs

US FTAs are focused on the control of trade in partner economies. They promote competition in sectors and markets that US

multinationals dominate and in which they want to increase investment opportunities. In fact, the use of the term 'free trade

15. 'U.S.-Singapore FTA Business Coalition Enthusiastically Endorses Trade Deal; Pledges to Work Hard for Congressional Approval', http://www.us-asean.org/ussfta/PressRelease_16Jan03.htm.

16. 'US-ASEAN Business Council endorses US-Malaysia FTA talks', 8 March 2006, http://www.bilaterals.org/article.php3?id_article=4079.

agreement' might be a misnomer given that the bilateral process promotes predatory

behaviour of multinational corporations and dominant nations.

Intellectual Property Rights

US FTAs dictate the highest levels of intellectual property rights protection. IPR involve patents, copyrights, industrial designs and rights in plant varieties and trade secrets (i.e. confidential information). A bilateral trade agreement requires the harmonisation of US intellectual property laws with local laws and regulations involving higher protection standards, irrespective of the different levels of development of the partner countries. A bilateral trade agreement links intellectual property rights with trade, making them binding and enforceable. In bilateral trade, IPR go beyond WTO requirements.

The now stalled US-Thailand FTA blocks production of generic medicines, leading to higher drug prices. Drug patents would be extended to 20 years, beyond the WTO-stipulated time period. In addition, the FTA would stop generic versions of medicine from entering the Thai market for five years, even if there is no patent on the medicine.¹⁷ Also, the 'FTA protects confidential test data against unfair use for five years for pharmaceuticals and ten years for agrochemicals. This chapter also contains IPR enforcement provisions that are significantly stronger than those contained in the TRIPS Agreement, thereby enhancing the ability of U.S. IPR owners to protect their rights as in the case of Singapore' FTA.¹⁸

The United Nations Development

Programme's *Human Development Report 2000* suggests that intellectual property rights agreements benefit technologically advanced countries such as the US. These countries hold 97 per cent of all patents, and their global corporations hold 90 per cent of all technology and product patents. The report notes that developing countries have little to gain from the stronger patent protection.¹⁹

In short, US bilateral FTAs increase the power of MNCs vis-à-vis the state and consumers. They encourage monopoly pricing and extraction of super-profits. The US corporations are leveraging their technological superiority at the peril of developed countries. IPR protection further exacerbates the asymmetries between the developed and the developing countries. IPR are a modern trade protectionist method that ensures monopoly profits to its owners and is a form of rent. It is estimated that strengthened IPR laws such as TRIPs plus will cost developing countries an additional US\$40 billion annually.²⁰

US FTAs use underhanded methods to claim compensation for IPR violations. The draft proposal of the bilateral agreement between the US and Pakistan stipulated that Pakistan 'pay damages to US companies for their future investment in case of the infringement of intellectual property rights and unilateral cancellation of licenses'.²¹ The agreement added that 'if the government

17. Martin Khor, 'Thais Take to the Streets to Stop U.S. Trade Agenda', *Multinational Monitor*, Vol. 27, Jan.-Feb. 2006, <http://www.multinationalmonitor.org/mm2006/012006/khor.html>.

18. 'U.S.-Singapore Free Trade Agreement', testimony of Ralph F. Ives, III, assistant US trade representative for Asia, the Pacific and APEC, to the House Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection, Washington, DC 8 May 2003, <http://adelaid.usvpp.gov/hyper/2003/0508/epf410.htm>.

19. UNDP, *Human Development Report 2000*, p. 84, <http://www.urfig.org/sup-eng-trips-undp-pt.htm>.

20. <http://www.twinside.org.sg/title2/twninfo253.htm>.

21. Mustafa Khalid, 'US to claim damages against IPR abuses', *Daily Times* (Lahore), 3 February 2005, http://www.bilaterals.org/article.php?id_article=1250.

fails to immediately compensate affected US firms, the World Bank will pay the

compensation and consider the amount as a loan given to Pakistan'.²²

Telecommunications

US FTAs require enthusiastic partners to make substantial concessions. The US pushes for a privileged and favourable status in the agreement, and this weakens developing nations' bargaining power. In the US-Singapore FTA, 'Singapore agreed to bind its market access commitments at levels that provide substantially better access than that which it currently offers to other

WTO Members. In the telecom sector, for example, Singapore's WTO commitment includes a closed list of services and only three basic telecom operators. Under the FTA, the scope of services and number of operators is unlimited'.²³ The Singapore concession will be made a minimum requirement in the negotiations with Thailand and Malaysia.

Government-Linked Companies

US FTAs subordinate government-linked companies (GLC) to market forces, to be operated on a commercial basis and subjected to divestment, including foreign takeover. The agreements stipulate that the government should not influence or interfere in the commercial decisions of GLC. Also, the state should substantially eliminate its ownership of GLC. In fact, the trade agreements discipline the state in its relationship with GLC. The state is the casualty and loses its much needed policy space to influence economic and social outcomes. Put differently, FTA stipulations on GLC are tantamount to an attack on the state.

The US-Singapore FTA dictates that 'Singapore commits to maintain its existing policy of not interfering with the commercial decisions of Government Linked Companies'.²⁴ In addition, the FTA requires that the government divest ownership in GLC; specifically it states, 'Singapore shall continue reducing and substantially eliminating its aggregate

ownership and other interests that confer effective influence in entities'.²⁵ In short, the US-Singapore FTA marching order to the Singaporean government is clear: sell its stakes in GLC. The government in the past hesitated to sell. The situation is further complicated by the FTA's competition law, which treats all investors in Singapore equally. This could translate into Singaporean GLC ownership going into foreign hands.

In Malaysia, GLC constitute about five per cent of the firms listed on the stock market, 40 companies accounting for about 36 per cent of Bursa Malaysia (previously Kuala Lumpur Stock Exchange) market capitalisation. In market value, GLC are worth MYR232 billion, more than half of the country's GDP. GLC are perceived as strategic vehicles in achieving the country's vision of becoming a developed nation by 2020. Also, GLC are an integral part of the 'national mission' outlined in the Ninth Malaysia Plan, the country's five-year

22. *ibid.*

23. Ives, *op. cit.*

24. Cited in Khanna Vikram, 'The US-Singapore FTA: A Mega Trade Deal, With Mega Benefits — And Some Pain', in *US-Singapore FTA: Implications and Prospects*, Institute of Southeast Asian Studies, July 2003, <http://www.iseas.edu.sg/52003.pdf>.

25. *ibid.*

development plan. Essentially, GLC perform a development function.

An approach on GLC similar to that of the US-Singapore FTA imposed on Malaysia will undermine development. At this stage of the country's development, the state needs

to provide direction and to help GLC transform into players able to compete with the rest of the world. The former approach would entail handing over state assets to private individuals and corporations, including foreign interests. Such an approach would thwart development possibilities.

Agriculture

US FTAs use the lure of market access to the US to extract considerable concessions. NAFTA promised access to US markets for Mexico and was perceived as a road map to development. Ten years into the agreement, the report card on agriculture is an outright disaster. The Mexican economy experienced about a 50 per cent growth in the value of its exports of major fruits and vegetables to the US. However, 'the earnings have been more than offset by the cost of its burgeoning imports in grains, especially corn, which tripled. Some domestic sectors have been virtually wiped out—a recent study notes that 99% of soybeans are imported and wheat cultivation fell by half. With imports accounting for 80% of rice, 30% of beef, pork, and chicken and a third of Mexico's staple—beans—serious concerns about food dependency have arisen'.²⁶ The benefits of fruit and vegetable exports accrue largely

to big farmers, while 'grains imports have destroyed thousands of livelihoods all over the country. It is estimated that about 2 million farmers no longer work the land since NAFTA, eight of every ten farmers live in poverty and 18 million earn less than two dollars a day'.²⁷

Furthermore, Mexican farmers have to compete with heavily subsidised US exports. The Farm Security and Rural Investment Act of 2002 provided \$248.6 billion in a 10-year subsidy for US corporate agribusiness. This was an increase of more than 80 per cent over the 1996 Freedom to Farm Act. This subsidy disadvantages local producers in the global market and provides an unfair advantage to US producers. The phenomenon has serious consequence for food security and sovereignty in partner countries, especially in agricultural countries.

Manufacturing

In 2005, Malaysian manufactured exports to the US were largely electrical goods, machinery, sound equipment and TVs, constituting about 43.9 per cent of its total manufactured exports to the US. Malaysia's imports of US electrical goods, machinery, sound equipment and TVs were 57.3 per cent. In 2005, about 45.27 per cent of Thailand's exports to the US were machinery

and about 40.17 per cent of imports were machinery from the US.

The import and export structure of trade between the US and Malaysia and Thailand illustrates that trade is essentially between companies that are part of the same MNC. These MNC located in the US and Malaysia and Thailand trade within

26. Laura Carlsen, 'The Price of Going to Market', 19 September 2005. Americas Program, International Relations Center (IRC), <http://americas.irc-online.org/AM/654>.

27. *ibid*.

themselves. This could entail Intel Malaysia or Intel Thailand exporting to Intel US and vice-versa.

Essentially, this is intra-firm trade. Studies in the US show that 90 per cent of US exports and imports flow through US MNCs, with roughly 50 per cent of US trade flows occurring between affiliates of the same MNC, being intra-firm trade.²⁸ Other research indicates that intra-firm trade is highest among Japanese manufacturing firms, especially in the electronic and electrical sub-sector.²⁹ European firms also demonstrate a high degree of intra-firm trade. The electronics and electrical industry is very highly integrated and drives the economic development of Malaysia and Thailand, countries at different stages of negotiations with the US. Also, US foreign direct investors' imports and exports are also

among the highest in this industry for the two ASEAN countries.

Why would US MNCs require an FTA in the context of trade which they control? The purpose of an FTA then is to ensure that trade rules protect investor rights, which, inter alia, involves certainty in the business environment, repatriation of profits and mobility of capital, property rights, the sanctity of contracts, respect for legal process, transparency and a pro-business environment of competition, investment and intellectual property rights. This requires obligating governments to treat foreign investors fairly and to offer legal protection equal to that available for domestic investors. A key demand in the negotiations is that investor rights be guaranteed. Essentially a bilateral trade arrangement signals that a country offers a safe place to do business.

Market Access and Crisis Issues in US FTAs

The allure of a US FTA involves gaining market access to the lucrative US market. The US is the largest consumer market and importer in the world. In the last decade, the US market has grown by more than US\$ 1.1 trillion. However, the US is suffering from twin deficits—a huge current account deficit and budget deficit. The International Monetary Fund has criticised US efforts to reduce its twin deficits as insufficient and not satisfactory. Robert Rubin, the former treasury secretary under Bill Clinton, warned: 'The US federal budget is on an unsustainable path. The scale of the nation's projected budgetary imbalances is now so large that the risk of

severe adverse consequences must be taken very seriously, although it is impossible to predict when such consequences may occur'.³⁰ There is pressure mounting on the US to reduce the deficits to sustainable levels. This will lead to a decrease in US imports.

It is suggested that adjusting the current account deficits to sustainable levels will reduce US imports by a thumping US\$300 billion in the next decade.³¹ This means that the US market for ASEAN exports will shrink, and this could unleash brutal competition among ASEAN producers for the US market. Furthermore, ASEAN

28. A.B. Bernard, J.B. Jensen and P.K. Schott, 'Importers, Exporters and Multinationals: A Portrait of the Firms in the U.S. that Trade Goods', NBER Working Paper No. 11404, June 2005.

29. <http://scid.stanford.edu/events/PanAsia/Presentations/Urata%206-2-06.ppt>.

30. Cited in Eva Cheng, 'United States: Re-emergence of twin deficits sparks alarm', <http://www.greenleft.org.au/back/2004/575/575p20.htm>.

31. Dean Baker, 'A Korea-U.S. trade agreement: what is at stake?', http://english.hani.co.kr/arti/english_edition/e_editorial/143941.html.

countries such as Thailand, Singapore and Malaysia will have to compete with other developing countries such as China, South Korea and India for the already shrinking market.

This scenario raises an important question: should Singapore, Thailand and Malaysia offer fundamental concessions—investor rights, competition policy and government procurement, restricting policy space and undermining national sovereignty—to the US when the benefits from an FTA could potentially be marginal? Put differently, the cost of the concessions demanded of Singapore, Malaysia and Thailand could far outweigh the benefits accruing from a shrinking market, a costly trade-off for the three leading ASEAN nations.

A recent report by the US Department of Commerce comparing rates of return on Asian investments in the US indicated that Singapore companies investing in the US recorded the lowest returns of Asian investors in 2005, 0.4 per cent. In fact, the report stated that returns from Singapore companies' direct investments in the US fell to US\$9 million from \$42 million in 2004. It is an irony that Singapore firms performed poorly when in the same period Asian companies recorded a 5 per cent increase in their returns, from US\$16.8 billion in 2004 to \$17.7 billion in 2005.³² It appears that countries without an FTA have outperformed a country with an FTA,

thereby raising serious doubts about FTAs' providing preferential market access and advantages to partner countries.

The US trade surplus with Singapore tripled after the first year of the US-Singapore FTA, reaching US\$4.3 billion. In 2004 US exports to Singapore increased to US\$19.6 billion, an 18.4 per cent increase from the previous year. In the first quarter of 2005, US exports to Singapore rose 14 per cent compared to the same period in 2004. In the first quarter after the US-Australia FTA went into effect in 2005, the US trade surplus with Australia grew by 31.7 per cent to \$2.13 billion.³³ These figures should send a chilling message to trade negotiators and trade ministers, including proponents of FTAs, that weaker partners are disadvantaged in an FTA.

More mature US FTAs in South America demonstrate that the gains of FTAs go to MNCs and local elites. The people and the nation have been left with a loss of livelihoods, reduced worker rights, destruction of local small and medium industries, food insecurity, debt and reduced access to medicine caused by stringent patent laws. Partner nations are confronted with trade deficits after the FTA comes into force. Thus, social and economic costs are borne directly by governments, the poor and vulnerable groups. US MNC demands for a Thai and Malaysian FTA may very well take the region in the same direction.

32. 'Asian Firms Eke Out 7% returns on direct US investments', German Press Agency, 25 October 2006. Countries without an FTA performed far better. For example, Malaysia registered a rate of return of 3.9 per cent, Hong Kong, 19.2 per cent, Taiwan 9.5 per cent and China 2.5 per cent.

33. 'CAFTA Facts: Free Trade Agreements Are Working for America', Office of the United States Trade Representative, 26 May 2005, http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file204_7872.pdf.