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Aileen Kwa

Rethinking the Trading System

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Dialogue on Globalization

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1. Preface

The world trade negotiations of the so called “Doha Development Round” at the WTO are in the limelight. High expectations on a successful conclusion of the round are placed by a majority of governments both from the North and the South and by the international business communities. A more cautious position is taken by a number of renowned international economists, trade union organizations and NGOs who are calling for much greater attention on social and environmental concerns and a slowing down and better “sequencing” of trade liberalization efforts and economic reforms without questioning the WTO as central trade negotiation forum, in rule making and in dispute settlement entirely.

Others, however, again in the North and the South, come to more fundamental and critical conclusions. “No deal is better than a bad deal” is a slogan expressing this fundamental concern. NGOs like “Focus on the Global South” working in Thailand, the Philippines and India are looking for “the transformation of the global economy from one centred around the needs of transnational corporations to one that focuses on the needs of people, communities and nations and in which the capacities of local and national economies are strengthened” – a position far more widespread than assumed by many supporters of the WTO and further trade liberalization. Even Pascal Lamy noted in a meeting with NGOs when he assumed office in autumn 2005, that the talks are faced with both a “confidence deficit” and – in response to the acceleration of globalization – a decrease in “the level of overall legitimacy of trade openings”.

In order to contribute to a rationalization of this ongoing debate and to a better appreciation of different positions, arguments and even fears, the Geneva office of the Friedrich-Ebert-Stiftung asked Aileen Kwa to provide a systematic insight into her critical analysis of the present trading system and place this into the context of a broader development strategy. Aileen Kwa is a Geneva-based trade analyst with “Focus on the Global South” and well known in Geneva as an ardent critic of the present global economic order and the WTO. Her study “Rethinking the Trading System” published here concludes: *“The multilateral trading system is in urgent need of radical change. Maintaining status quo will consign low-income countries to further deindustrialization, inequitable growth and poverty.”* Without being able to share her view in all dimensions, we do regard her analysis an important contribution to a necessary and ongoing debate and hope for a critical dialogue.

Dr. Erfried Adam
Director, Geneva Office
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2. Executive Summary

Neo-liberal trade liberalization experiments have failed in developing countries. Even when exports or growth rates have increased in low-income countries, in many developing countries, poverty has not been reduced, giving rise to immiserising growth.

The current trend of consolidation of powerful corporations at the top of the production chain has seen a corresponding weakening of the power of small producers at the bottom of the chain.

With the exception of some Asian countries which had a head-start, openness and the alignment of economies to exports have led to stagnation or decline in countries' level of industrialization. The successful economies have not in fact followed a linear neo-liberal path, but have instead used many trade policies which are no longer sanctioned in the WTO and other free trade agreements. In addition, the current trend of consolidation of powerful corporations at the top of the production chain has also seen a corresponding weakening of the power of small producers at the bottom of the chain.

Neo-liberalism has been unsuccessful in bringing about broad-based development because it has ignored the power imbalances along the value chain. The over-enthusiasm regarding exports is also logically flawed. Not all countries can attain export surpluses. Others will end up with an import surplus and the contraction of their internal markets. The pressure to be competitive also pushes wages down, often shrinking rather than expanding people's purchasing power and standard of living.

The multilateral institutions have been the primary agents advocating liberalization to the developing world, and their agenda has penalized rather than supported the poor. The current Doha Round is an example of an anti-development package that experts have already shown will cause further harm to low-income developing countries.

The paper provides some pointers towards reorienting the system with development as a central objective.

The trading system needs an overhaul. The paper provides some pointers towards reorienting the system with development as a central objective. It first highlights some principles that can guide the system in this endeavor - prioritizing human development and human rights; respecting countries' sovereignty but also enforcing extra-territorial responsibilities; prioritizing environmental sustainability; and lastly valuing solidarity and cooperation, rather than a system based on competition. The paper covers national, regional and multilateral development strategies, and how trade can be embedded within these strategies.

At the national level, we need to reclaim resources, relocalize and reinvigorate domestic markets – these are more accessible to the multitude of poor producers in low-income countries, than external markets. Regionalism should be a strategy for strengthening domestic production capacities, rather than another avenue through which local markets are pried open.

The multilateral trading system would serve developing countries better if it unhinged itself from the trade liberalization treadmill, since this cannot be imposed on countries top-down, and instead, takes on a regulatory function. The multilateral system can consist of one or several agencies. Its primary aim would be to ensure that countries observe their extra-territorial responsibilities and do no harm to others. Its duties would include the following:

- Be a whistle blower, disciplining countries that dump on others, and warning affected countries when dumping occurs;
- Regulate corporate behavior and the implementation of multilateral competition policy which includes downsizing corporations so that production chains are less concentrated, and producers at the bottom end of the chain have more control and are able to obtain fair prices;
- Implement supply management agreements at the international level for cereals, diary and other products staples which currently suffer from oversupply, leading to dumping on the world market
- Implement international commodity agreements (ICAs) for tropical products – these could be producer-only agreements, avoiding the difficulties encountered in the previous generation of ICAs;
- Play a regulatory function in countries' access to knowledge and innovation so that as a global community, we are moving towards open source information and knowledge sharing, as well as the pooling of research. Just as the developed countries did not have strict intellectual property (IP) rules when they were developing, strict IP rules for low-income developing countries will not help in their development.

3. Introduction

The trading system has been undergoing a crisis of legitimacy. Developing country governments are uncertain that the Doha package pushed especially by the US and EU, focusing on aggressive market openings, would be beneficial for them. Even in the US, debate is heated in Congress over whether or not 'free trade' will benefit America. This led to a six-month hiatus in the talks in 2006.

If liberalization was an unambiguously beneficial tool for economic development, would not countries be rushing ahead to liberalize, rather than fighting to maintain some independent trade policy?

At the time of writing, in early 2007, negotiations have resumed. Whilst a large number of developing country members have formally registered their willingness to bring the Round to a conclusion, they remain uncertain if their concerns would be taken care of. Major developing country coalitions, such as the G33[1] in agriculture, and the NAMA 11[2] in the nonagricultural market access negotiations, are working hard to maintain certain amounts of protection for their agriculture and industrial sectors. (Likewise, the US and EU, too, are pushing hard to maintain protection in agriculture, and the US also in certain sectors of industry eg. textiles). If liberalization was an unambiguously beneficial tool for economic development, would not countries be rushing ahead to liberalize, rather than fighting to maintain some independent trade policy?

This is clearly a crisis of the neo-liberal paradigm. Since the 1980s, with the collapse of the Cold War, leaving no countervailing force against neo-liberalism, liberalization policies have been pushed at all levels, in the national policy-making contexts, but also in various regional and international trade, structural adjustment and loan agreements.

This paper will first highlight trade trends in the global economy, as well as the impact of neo-liberal policies on the developing world. This analysis will be followed by suggestions on alternative trade and development policies that can promote people-centered and sustainable development.

1 An alliance of 46 developing countries in the WTO. The group is co-ordinated by Indonesia. Their main concern is that certain strategic / special products should be protected in the current Round of negotiations for reasons of food security, rural livelihood and rural development.

2 NAMA 11 is a coalition of ten developing countries in the WTO. They are concerned about protecting a limited number of tariff lines in the current round of non-agriculture market access (NAMA) negotiations in order to shield some of their sensitive industrial sectors.

4. Trade Trends and Their Impact

a) Trends in world trade and their impact

Since the 1980s and the implementation of structural adjustment and trade liberalization policies, there has been an intensification of economic globalization. The presence of foreign corporations in all sectors – from the provision of financial, energy and telecommunication services, as well as in manufacturing – is very apparent. Perhaps the most visible is the retail industry. Until the mid 1980s, retailers were operating only in their domestic markets. Now, through mergers and acquisitions, retail corporations are operating globally.[3]

There are also significant changes in industrial organization in the past ten years. Whilst corporations grew in the 1980s through vertical integration, the current trend is the disintegration of production. This development has resulted from what Gibbon and Ponte term "corporate financialisation", and the desire for corporations not only to increase their market share, but to also increase their shareholder value. Due to the slow growth in demand in both global goods and services, corporations are focusing more on oligopolistic rent-seeking and market branding strategies. Gibbon and Ponte characterize this trend as

> *"Changes in industrial organization, with the passage from a focus on internal scale economies (related to vertical integration) to one on external economies (via out-sourcing)- and a resulting tendency for "lead firms" to retain control over product definition and marketing, and to out-source manufacturing, supply chain management and sometimes also inventory management."*[4]

This has led to the phenomenon of "global contract manufacturing", mimicking the trend in certain commodity production chains. Lead firms are no longer involved in manufacturing, but confine their activities to branding and marketing.[5] An example is Nike, which no longer dabbles in manufacture. Manufacturing companies are provided the use of the brand if they meet the Nike criteria. Manufacturers receive 20% of the profits, with 80% of profits retained by Nike. Similarly, Hewlett Packard does not manufacture computers. Companies in Taiwan do and Hewlett Packard simply brands them.[6]

Lead firms are no longer involved in manufacturing, but confine their activities to branding and marketing.

3 Gibbon P and Ponte S 2005 "Trading Down: Africa, Value Chains, and the Global Economy", Temple University Press.
4 Gibbon P and Ponte S 2005 ibid.
5 Gibbon P and Ponte S 2005 ibid.
6 The author is grateful to Samuel Asfaha of the South Centre for discussions and information on this subject.

As the lead firms shed their manufacturing arm, we are also witnessing what political analyst Walden Bello terms the crisis of over accumulation and over capacity in the global economy, particularly evident in core industries.

> *"In the USA the computer industry's capacity was rising at 40% annually, far above projected increases in demand. The world auto industry was selling just 74% of the 70.1 million cars it made each year, creating a profitability crunch for the weakest players, like former giant General Motors, which lost $10.6 billion in 2005. In steel excess capacity neared 20%...And, according to the former General Electric Chairman Jack Welch, 'there is excess capacity in almost every industry'".* [7]

Contrary to earlier predictions, the manufacturing sector continues to dominate the trade terrain. Trade in services since the 1990s has not grown as spectacularly as was predicted. For developing countries, their share in services exports was 22 per cent in 2003, whilst their share in imports was 24 percent. According to UNCTAD, developing countries generally remained net importers of commercial services, and their services trade has been below global averages.[8]

Developing Countries' Experience of Trade Liberalization

Asia is now taking the lead position in exports of manufactures, not only of low capital goods such as clothing, but also technologically advanced products. The trade share of other developing countries, however, have stagnated or even declined. African countries, in particular, have lost out. Whilst their share of overall world trade was 6 percent in the 1980s, it has now fallen to 2 percent.

Structural adjustment policies have been implemented across the developing world since the 1980s. Instead of industrializing, most countries instead have seen their industries contract.

Structural adjustment policies have been implemented across the developing world since the 1980s. Instead of industrializing, most countries instead have seen their industries contract. There is a minority of countries and sectors within countries that have done well, but these were mainly countries which already had fairly mature industries before liberalization took place eg. some Asian countries.

Even in those countries which increased their exports through this period, industrialization either stagnated, or deindustrialization occurred. Some examples include Mexico and Chile. In Mexico, between the late 1980s and through the 1990s, manufactured exports grew extremely quickly – nearly 30 percent – in part due to the passage of the North American Free Trade Agreement (NAFTA). The country was one of the top reformers in Latin America. It also received significant foreign direct investment (FDI) flows. However, according to former UNCTAD economist S.M. Shafaeddin, manufactured value added (MVA)

> *"did not accelerate, and upgrading of the industrial base did not take place".*

7 Bello W 2006 "The Capitalist Conjuncture: over-accumulation, financial crises, and the retreat from globalization". Third World Quarterly, Vol. 27, No. 8 pp 1345 – 1367, Routledge.
8 UNCTAD 2005 TD/B/COM.1/71 "Trade in Services and Development Implications", 20 January.

Chile is usually portrayed as a success story in Latin America. However, even after 25 years of reform, there has been little upgrading of its industries beyond the expansion of natural resource based industries such as wood and chemical products. Primary products constitute over 81 percent of its exports. In the case of copper, which accounts for the bulk of Chile's exports, the percentage of refined copper declined in favor of primitive copper concentrates.[9]

Even more alarming, Jamaica, Ghana, Colombia, Uruguay and Paraguay all experienced high or moderate levels of growth rates of exports, but had negative growth rates of MVA. Says Shafaeddin,

> *"notwithstanding two decades of reform, Ghana's growth in MVA added was significantly negative, registering -3.5 percent during the 1990s, implying severe deindustrialization"*.[10]

Growth Rates

Growth rates have been on the decline in the past 25 years. Mark Weisbrot et al compare data on economic growth and various other social indicators of the last 25 years (1980–2005) with the prior two decades (1960-1980). They find that contrary to popular belief, the era of neo-liberal policies – 1980 to 2005 – saw sharply slower rates of economic growth and reduced progress on social indicators for the vast majority of low and middle-income countries. [11]

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They divided developing 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 % in 1960–1979 to averages of 0.7 to 1.3 % in 1980-2005. Only the group with the lowest per capita Gross Domestic Product (GDP) showed a tiny increase, from 1.7 to 1.8%, and only because this group included fast-growing China and India.[12]

The International Labour Organisation (ILO) tells the same story: the mean world GDP per capita growth fell from 3.6 % in 1961 to just 1 % in 2003.[13]

According to Ha-Joon Chang, economics professor at Cambridge, per capita income shrank in sub-Saharan Africa in the 1980s (with the onset of structural adjustment policies). Growth was at -1.2% per annum. In the 1990s, it was 0.2 percent per annum. Between 2000 and 2003, growth returned to the region, but at a very low rate of around 0.5 percent. This means that even if the region continues to grow at the current rate for another 15 years, its per capita income in 2020 would still be lower than it was in 1980.[14]

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9 Shefaeddin S.M. 2005 "Trade Liberalization and Economic Reform in Developing Countries: Structural Change or De-Industrialisation?", UNCTAD Discussion Papers No. 179 April.
10 Shafaeddin ibid.
11 See Weisbrot M, Baker D and Rosnick D 2005 'The Scorecard on Development: 25 Years of Diminished Progress', September, Center for Economic and Policy Research.
12 Weisbrot, M et al 2005 "The Scorecard on Development: 25 Years of Diminished Progress", Center for Economic and Policy Research (CEPR), Washington, September.
13 ILO 2004 "A Fair Globalisation", World Commission on the Social Dimensions of Globalisation.
14 Chang HJ 2005 'Why Developing Countries Need Tariffs: How WTO NAMA Negotiations Could Deny Developing Countries' Right to a Future', South Centre.

Employment

Despite increases in trade flows in the past decade, unemployment has not abated but has been on the rise. Between 1990 and 2002 unemployment increased in 7 out of 9 regions. In Southeast Asia, unemployment almost doubled from 3.6% in 1990 to 6.5% in 2002. Similarly, in that period unemployment grew by almost 50% in Latin America and even in East Asia, which includes China, unemployment almost doubled from 3.6% in 1990 to 6.5% in 2002.[15]

Failures

In the 1980s and 1990s, Sub-Saharan African governments privatized, liberalized and deregulated a little less quickly than what took place in Latin America and Eastern Europe. Nevertheless, reforms were implemented: state marketing boards were dismantled, inflation reduced, trade opened up and substantial amount of privatization was undertaken.[16]

The World Bank characterizes the outcome as follows:

> *"Sub-Saharan Africa failed to take off despite significant policy reform, improvements in the political and external environments, and continued foreign aid. The successes were few – with Uganda, Tanzania, and Mozambique the most commonly cited instances – and remained fragile more than a decade later".* [17]

A number of sub-Saharan African countries even slashed import tariffs to very low levels and removed all quantitative restrictions. Yet their economies have gone nowhere and their social indicators are deteriorating.[18] Life expectancy is as low as 33 years and Africa's poorest countries have extreme poverty rates close to 90%.

The FAO states that one in three people in sub-Saharan Africa does not get enough to eat. Even more distressing, one in eight children in low income countries and one in six in sub-Saharan Africa die before their 5th birthdays, compared to 1 in 170 in developed countries. This is a wider gap than in 1990.[19]

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15 Institute of Policy Studies, cited in Financial Times 2005 "Global Trade: Look at the Facts Rather than Heed Corporate Lobbying", Letter to the editor by 142 civil society organizations, 15 November.

16 Rodrik D 2006 'Goodbye Washington Consensus, Hello Washington Confusion ?', Harvard University, January. Rodrik observes that 50% of more of the state owned enterprises were divested during the 1990s in the Central African Republic, Cote d'Ivoire, Gambia, Ghana, Guinea-Bissau, Kenya, Mali, Tanzania, Togo, Uganda and Zambia (Nellis 2003).

17 World Bank 2005 "Learning from Reform", cited in Rodrik D ibid.

18 There are many problems with measuring poverty based on a dollar a day – many analysts have said that by doing so, poverty levels are severely underestimated, and shifts out of poverty are overestimated (see Vandemoortele J 2002 "Are We Really Reducing Global Poverty"). However, if this problematic indicator is used, half the population in sub-Sahara Africa subsists on less than a dollar a day. According to the UN Development Programme's 2005 Human Development Report, almost 100 million more people live on less than a dollar a day in 2001 than in 1990 (Soderlindh, L 2006 'Development: The Lost Decade', IPS, reproduced in SUNS#5966, 15 February.)

19 Woodward D, forthcoming New Economics Foundation.

UNCTAD's most recent Least Developed Country (LDC) report concludes,

> *"In recent years, many LDCs have achieved higher rates of economic growth than in the past and even higher growth of exports. But there is a widespread sense – which is apparent in the concern to ensure "pro-poor" growth – that this is not translating effectively into poverty reduction and improved human well-being."*[20]

The report goes on to state that the incidence of poverty did not decline in the 1990s in LDCs as a group, and has remained at 50% of the total population. If this trend continues, the number of people living in poverty in LDCs will increase from 334 million in 2000 to 471 million in 2010.[21]

The report cites Comoros, Malawi, Mali, Tanzania and Zambia as countries where GDP per capital growth has not translated into higher consumption per capita, which most likely implies there was no reduction in poverty.

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According to Rodrik, growth accelerations are in fact more common in low-income countries than in middle-or high-income countries. It is not that poor African countries are unable to grow, but their growth cannot seem to be sustained.[22]

In Latin America, countries that broke with their earlier import-substituting regimes and started emphasizing privatization, deregulation, trade and financial liberalization in the 1980s, saw their growth shrinking to roughly half of what it was in the decades of "bad import-substituting industrialization."[23]

Whilst the region saw economic recovery in the 1990s, growth did not result in social progress or equitable development. Similarly, although there was faster growth in South Asia in the 1990s, it did not prevent the number of income poor from rising. UNDP's Jan Vandemoortele concludes that

> *"clearly, social equity has been the missing link between economic growth and poverty reduction"*.[24]

Successes

On the opposite end of the spectrum, the success stories have been those economies that have not implemented the neo-liberal doctrine, but have sought unorthodox policies in keeping with their needs. Robert Wade observes that the evidence from Japan (1959–73), South Korea (1955–90) and Taiwan (1955–90), "arguably the most successful developers in history" shows that these countries used protection well, and together with other industrial policies, accelerated the diversification and upgrading of their economies faster than any "free market" would have. He

20 UNCTAD 2006 LCD Report p. 31.
21 UNCTAD 2006 ibid.
22 Rodrik 2006 ibid.
23 Wade R 2006 "A Just International Economy", Foreign Affairs, September / October.
24 Vandemoortele J 2002 "Are We Really Reducing Global Poverty?" UNDP, New York.

sums, "Robust evidence shows that the dominant process in successful development is not specialization but diversification – the expansion of capacities across a wider range of products".[25]

Commodities Trade

Ninety-five of 141 developing countries derive at least 50% of their export earnings from commodities.[26] Price volatility and declining commodity prices have been a huge problem. Since the late 1970s, real commodity prices have declined at an average of 3 percent a year. According to the World Bank, real agricultural commodity prices (1980–2002) declined by 47 percent[27] and for metal and minerals, real prices decreased by 35 percent.[28] Within agricultural commodities, tropical beverages, oilcrops, cereals, sugar and raw materials have experienced the steepest declines, while for horticulture products, meat and diary, the fall has been less severe.[29]

The income of commodity exporting countries therefore failed to keep pace with their cost of imports. The World Bank estimates that between 1970 and 1997, the terms of trade decline deprived non-oil exporting countries in Africa of an equivalent of 119 percent of their combined annual gross domestic product in lost revenues.[30]

Since 2006, however, commodity prices have been on the increase due to a number of factors, including increasing demand by China and India, production declines from certain countries and the demand for bio-fuels. According to a Christian Aid study, "A Rich Seam: Who Benefits from Rising Commodity Prices?" the recent rise in prices in extractive industries such as copper and gold, have principally benefited the foreign corporations operating in these industries, rather than the countries themselves.

Whether the producers at the bottom of the production chain are receiving the benefits remains to be seen.

The GDP of several African countries is projected to increase slightly due to the current price hype. However, whether the producers at the bottom of the production chain are receiving the benefits remains to be seen. As a result of market power, value often accrues to traders and those in distribution, transport, marketing and advertising. Also, the fact that these producing countries are not in control of prices, continues to be a problem, since they remain vulnerable to any sudden plunge in prices.

25 Wade R 2006 ibid.
26 South Centre 2005 "Problems and Policy Challenges Faced by Commodity-Dependent Developing Countries", Geneva.
27 World Bank 2003 "Global Economic Prospects 2003".
28 Lines T 2004 "Commodities Trade, Poverty Alleviation and Sustainable Development: The Re-emerging Debate". Paper prepared for the event on Commodities, Poverty Alleviation and Sustainable Development. Sao Paulo, Brazil, 15 June 2004.
29 South Centre 2005 "Problems and Policy Challenges Faced by Commodity-Dependent Developing Countries", SC/TADP/TA/COM/1 November.
30 FAO 2004 "The State of Agricultural Commodity Markets 2004".

Rise of Corporations, Fall of Small Producers

If there is a single defining characteristic that stands out in the past 25 years, it is the rising power of corporations, and the corporate control over markets, in stark contrast with the lack of power of producers at the bottom of the production chain.

Thomas Lines gives the example of the coffee trade, where the biggest roaster companies buys about 15 million standard 60 kg bags of coffee beans each year, whilst the average farmer sells less than 5 bags. There is therefore massive concentration in the market at key points and with that market power, these companies force down their purchasing price at the expense of farms, plantations and agricultural employees.[31]

The banana market is another example. There are 2,500 plantations, 15,000 small and medium sized farmers and 400,000 plantation workers supplying 60 million bananas to the UK market. However, just five banana companies control more than 80 percent of the global market. Five companies have 88 percent of the UK market for banana ripening and distribution, and Five retailers command 70 percent of the UK's grocery market.[32]

According to the FAO, in less than five years, Thailand's leading supermarket chain slashed its list of vegetable suppliers from 250 down to ten, cutting out the small farmers. The FAO concludes,

> *"Smallholders face many obstacles to joining the ranks of preferred suppliers for supermarkets. Meeting standards for quality and reliability may require substantial investments in irrigation, greenhouses, trucks, cooking sheds and packing technology"*.[33]

A tall order for any small farmer.

b) How and why Neo-Liberalism has failed the poor

Political analysts are predicting that the neo-liberal frenzy, characterized by deep faith in the liberalization of markets, is on the verge of collapse. Yash Tandon, Executive Director of the South Centre, characterizes the current global conjuncture as the "beginning of the end of one epoch" and the "transition to another unborn epoch".

31 Lines T 2006 "Market Power, Price Formation and Primary Commodities", Research Papers No. 10, South Centre.
32 Lines T 2006 ibid.
33 FAO 2004 "The State of Food Insecurity in the World 2004: Monitoring Progress Towards the World Food Summit and Millennium Development Goals", Rome.

Harvard economist Dani Rodrik observes that,

> *"while lessons drawn by proponents (of neo-liberalism) and skeptics differ, it is fair to say that nobody really believes in the Washington Consensus anymore. The question now is not whether the Washington Consensus is dead or alive; it is what will replace it"*.[34]

At times, the empirical evidence has been a little too discomforting for the most ardent proponents of neo-liberalism. So strident are the contradictions between recommended policies and their results, that the World Bank, whilst still staunchly neo-liberal, gives way to occasional bouts of schizophrenia. The preface in one of their documents "Learning from Reform", which exams the past two decades of structural adjustment admits:

> *"The Central message of this volume is that there is no unique universal set of rules… [W]e need to get away from formulae and the search for elusive "best practices"…"*.

Alas, these episodes of schizophrenia are few and far between, and the Bank largely continues to preach liberalization.

The IMF, though severely discredited after the Asian and Argentinean crises, remains unrepentant, promoting what Norman Girvan refers to as "adjustment without end". Evidence of economies in stagnation simply indicate the need for 'better' quality adjustment.[35]

It is impossible to elucidate all the reasons why the neo-liberal experiment has failed in most of the developing world. Each country would have its own particular context and reasons. However, some obvious gaps in the neo-liberal theory and why it has misled so many should be highlighted:

Devoid of a Power Analysis

Economic theory is devoid of any power analysis. There is no notion of market power. Those in the market place participate on an equal basis. Demand and supply determine prices. Asserts Gordon White, in his paper "The Political Analysis of Markets", this characterization is

> *"a simplistic and misleading caricature which can obstruct understanding and distort policy"*.[36]

According to Thomas Lines, conventional economics needs to be displaced by a more realistic theoretical basis, which will hold market power at its core. Market power, he argues, is inherent in the interplay between supply, demand and

34 Rodrik 2006 ibid.

35 Girvan N 2005 "The Search for Policy Autonomy in the South: Universalism, Social Learning and the Role of Regionalism", UNRISD Overarching Concerns – Paper No. 9.

36 White, G 1993 "The Political Analysis of Markets", IDS Bulletin, cited in Lines T "Market Power, Price Formation and Primary Commodities", Research Papers 10, South Centre.

prices at all times. Prices arrived at inevitably depends on the market power of the supply and demand sides any transaction. Citing commodity price declines, he says that the crisis is inextricably linked to the declining market power of agricultural producers (particularly those in developing countries), whilst there is tremendous power at the buyer's end of international supply chains. Even in markets that on first sight seem to resemble the "perfect" ideal, market power can be found if the market is disaggregated sufficiently.

> *"Changes in the balance between supply, demand and price on a national market will often be the cumulative result of market power exerted on the supply or demand side in various localities".*[37]

As a result of failure to have a more sophisticated analysis of markets and market power, the international community has had a major blind spot when it comes to the governance of corporate activity, and their role in the market place. Whilst government intervention is viewed negatively, corporate influence of the market is seen as "neutral", even positive. Such biases have meant that WTO trade rules, conditionalities of the Bretton Woods institutions, and free trade agreements, have been focused on putting restraints on government action (the main economic actors in low-income developing countries) but not on corporate action (the driving forces of developed country economies). State trading enterprises (STEs) have been dismantled or rendered ineffective, whilst no rules or restraints are placed on corporations. This has further deepened the imbalances between developed and developing countries' economies and weakened developing countries' production and economic regulatory capacities.

Whilst government intervention is viewed negatively, corporate influence of the market is seen as "neutral", even positive.

Fallacy of Composition[38]

Although proponents of the Washington Consensus have fervently pushed a policy of export-driven economic orientation for the developing world, there has been no sophisticated understanding of the contradictions of the export policy on national economies.

When aiming to export more, countries seek to be more price competitive than their neighbors. This is done by cutting unit costs through wage restraints and labor flexibility, or by raising labor productivity. In many cases, such policies have had the disturbing effect of leading to unemployment and /or depressing domestic purchasing power. In low-income countries, decreased purchasing power is closely tied to decreasing living standards. Also, with stagnating or decreasing purchasing power, the internal market shrinks. As mentioned in the country examples above, exports can therefore be increasing, but living standards can be on the decline, and the national market could be shrinking.

The situation can be different if a country's exports exceed imports so that there is an export surplus. However, as Amit Bhaduri explains,

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37 Lines T 2006 ibid.

38 Fallacy of composition arises when one infers that something is true of the whole from the fact that it is true of some part of the whole. In the case of exports, one country increasing its own market by attaining export surplus does not mean that all countries exporting will enjoy an export surplus. There will correspondingly be countries which will be saddled with import surpluses.

"This strategy can only work for those countries that can achieve a sufficient export surplus while other countries with corresponding import surplus depressing their demand would face a serious problem".[39]

We see this situation today in the relationship between China and Africa, where Chinese imports are likely to threaten the already weak industrial base in African countries.

The single focus on export markets has led policy makers to neglect their own domestic markets, particularly the danger of increasing exports, yet having shrinking national markets, implying also, a decrease in living standards.

This issue was explored in the UNCTAD 2004 Report on Least Developed Counties (LDCs). In the report, UNCTAD concludes that, "[t]he positive role of trade in poverty reduction is actually being realized in very few LDCs". Whilst 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." Export expansion has led to positive changes in private consumption per capita (that is, poverty alleviation) in only three LDCs – Bangladesh, Guinea and Uganda.

The Report also says that,

"Indeed, there is a strong likelihood that export-led growth (in LDCs with mass poverty) will actually turn out to be 'enclave-led growth.' This is a form of economic growth that is concentrated in a small part of the economy, both geographically and sectorally."

"[t]here is no guarantee that export expansion will lead to a form of economic growth that is inclusive. Indeed, there is a strong likelihood that export-led growth (in LDCs with mass poverty) will actually turn out to be 'enclave-led growth.' This is a form of economic growth that is concentrated in a small part of the economy, both geographically and sectorally."[40]

In over half the number of cases studied, 29 out of 51, export expansion led to either ambiguous or immiserizing effects. They conclude that the quality, not only the quantity, of trade has to be carefully examined.[41]

Maturity of the Industrial Base and Openness

The push towards exports and openness overlooks the importance of a country's preparedness – particularly the preparedness of their industrial base before the onset of liberalization. The evidence so far is clear that unless there is a certain level of maturity of the industrial base before openness, liberalization causes deindustrialization, defined as the decline in manufacturing value added in proportion to GDP. Shafaeddin explains that this type of de-industrialization is due to the re-orientation of the production structure of the economy from import substitution strategies towards production on the basis of static comparative advantage.[42] Without increasing MVA, a country's economic development cannot be sustained over the long term.

39 Bhaduri A 2005 "Joblessness" in The Development Imperative: Toward a People-Centered Approach by Hershberg E and Thornton C (eds), Social Science Research Council.
40 UNCTAD 2004 LDC Report.
41 UNCTAD 2004 ibid.
42 Shafaeddin 2005 ibid.

Proponents of the Washington Consensus see deindustrialization as a necessary evil. It is transitory, improves efficiency and promotes growth. The assumption is that as inefficient industries disappear, efficient ones emerge. Unfortunately, there is little evidence that new and efficient industries have replaced the ones that have been destroyed.

The Asian experience illustrates the importance of dynamic comparative advantage. Even when an industry is not competitive, they can be developed over time, but trade liberalization has to be gradual and selective.

Shafaeddin argues that the problem with neo-liberal reforms is the promotion of static comparative advantage, rather than dynamic comparative advantage. As mentioned earlier, exports expanded and MVA showed noticeable growth, but the expansion took place largely in resource-based industries – simple assembly operations and in some cases, traditional labor intensive industries. There was little upgrading of the industrial base.

„The problem with neo-liberal reforms is the promotion of static comparative advantage, rather than dynamic comparative advantage.“

Monopoly Power through Strengthened Intellectual Property Rules

The WTO's Trade Related Intellectual Property Rights (TRIPS) Agreement came into effect in 1995 with the WTO. It heralded a new era of strong intellectual property rules, since it became a minimum and "universal" baseline for intellectual property standards, which bilateral and other free trade agreements have adopted and strengthened.

That this was the brainchild of biotech, pharmaceutical and information technology companies is not a secret. James Enyart, director of international affairs at Monsanto boasts:

> *"Industries [i.e. the Intellectual Property Committee][43] had identified a major problem for international trade. It crafted a solution, reduced it to a concrete proposal and sold it to our own and other governments".*[44]

TRIPS has had a major impact on developing countries in a variety of ways, including slowing down their ability to advance industrially. TRIPS has little to do with trade. In fact, it stymies trade by allowing the patent holder to maintain their monopoly over potential competitors. It also leads to large distortions in the market, as a result of raising the price of protected goods far above the cost of production. According to Weisbrot and Baker,

> *"it is unusual for trade barriers to add more than 20 per cent to the price of a product in the industrialized countries or more than 40 percent in the developing countries. In contrast, patents, at least in the case of prescription drugs, typically add 300-400 percent or more to the price of the product."*[45]

43 According to Tansey G (2006), the Intellectual Property Committee was set up by over a dozen CEOs of US corporations in March 1986, the same year the Uruguay Round was launched.
44 Dutfield G 2002 "Trade, Intellectual Property and Biogenetic Resources: A Guid to the International Regulatory Landscape", Background paper, Dialogue on Trade, Biological resources and Intellectual Property Rights, Dhaka, 18 April, cited in Tansey G 2006 "Global Rules, Patent Power and our Food Future: Controlling the Food System in the 21st Century", No. 130 April, IIIS Discussion Paper.
45 Weisbrot M and Baker D 2005 "The Relative Impact of Trade Liberalization on Developing Countries", in The Development Imperative: Toward a People-Centered Approach, by Hershberg E and Thornton C (eds), Social Science Research Council.

Even free trade economists supporting neo-liberal policies have found it anti-competitive, protectionist and monopolistic. Free trade advocate Jagdish Bhagwati describes the WTO's intellectual property protection as a "tax" that most poor countries pay on their use of knowledge, constituting a one-way transfer to the rich producing countries.

The majority of the world's patents are owned by the transnational corporations in the developed world.

The majority of the world's patents are owned by the transnational corporations in the developed world. According to Norman Girvan, by the end of the 1990s, developing countries only accounted for four percent of the world's research and development (R&D) expenditures. TRIPS therefore reinforces the technologically dominant positions of developed country firms, and reduces pressure on them to share technology.

Prior to TRIPS, developing countries were attempting to enforce international codes on technology that would mandate TNCs to transfer technology in the countries they operated within. Developing countries also had the freedom to determine the areas of non-patentability, and the duration of patents, in accordance to their development needs. There was no universal provision fixing the lifespan of a patent to 20 years, as is the case with TRIPS. Countries could take into consideration issues such as the kind of technology in question, their industrial strategy, whether the product was to be produced locally or imported etc.

Even when foreign firms set up production plants, there is often little or no technology transfer.

Monopoly rights over technology accounts for why many developing countries have failed to industrialize. Even when foreign firms set up production plants, there is often little or no technology transfer. This has contributed to export "enclaves", with virtually no linkage to the domestic economy.

The TRIPS has also raised other human rights and environmental concerns. It has contravened the UN Convention on Biological Diversity, for instance, through its patents on seeds and by making illegal the replanting of old seeds. It has clamped down on the national generic drug industries, severely affecting public health.

Unfortunately, the 20-year patent law of the WTO is still not enough for the corporations promoting strong IP rules. TRIPS-plus agreements are being sought in the context of bilateral and regional free trade agreements with both the US and EU. These countries are asking for longer than 20-year patents, as well as the shrinking of already limited flexibilities found in the TRIPS agreement, such as narrowing the grounds for compulsory licensing.

One example of the impact of intellectual property (IP) protection on public health and on local firms is the case of Hungary which adopted strict IP rules as the price of accession to the EU. As a result, most of the locally owned firms in the pharmaceutical industry were taken over by foreign multinationals. The market share of local firms shrank from 70 to 30 percent.[46]

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46 Girvan N 2005 "Lessons From the Struggle for a New International Technology Order", Second Annual Surendra Patel Lecture on Development, South Centre.

It is difficult to imagine how countries such as those in Africa will be able to upgrade their industries and climb out of their position as the exporters of raw commodities in the context of a global system that allows information and technology monopolies under TRIPS or TRIPS-plus conditions.

It is difficult to imagine how countries will be able to climb out of their position as exporters of raw commodities in the context of a global system that allows information and technology monopolies.

c) Multilateral Institutions that promote Neo-Liberalism

It is not only economic theory which has masqueraded as power neutral. The multilateral institutions that are the main stewards of neo-liberalism have also portrayed themselves as neutral agents, working for the best interests of all, and particularly, the poor.

On closer examination, this assumption requires some rethinking. This section will focus mainly on the WTO, but World Bank and IMF policy conditionalities, and the biases in the operation of the Bretton Woods institutions, suffer from similar defects.

Multilateralism at any Cost?

On the occasion of the collapse of the Doha trade talks in July 2006, Pascal Lamy, the Director General lamented:

> *"Should the breakdown on Sunday 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 favour 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 of better integrating poor countries into the global economy."*[47]

Is this in fact the case? Has the WTO, as the central pillar of the trading system, served the interests of the poor? Trade and Industry Minister of Guyana Clement Rohee, in a speech given at the WTO public symposium entitled "Multilateralism At Crossroads" comments:

> *"For many developing countries... multilateralism equals discrimination which in turn equals marginalization. It is perhaps the most serious challenge facing us all today in our collective quest for ordered global development."*[48]

47 Lamy P 2006 "Pascal Lamy: What Now, Trade Ministers?", International Herald Tribune, 28 June.
48 Rohee C 2004 "Multilateralism at Crossroads", Presentation at the WTO Public Symposium, Geneva, May 25-27.

"As a representative of a small Caribbean developing country, I am very concerned with trends that will subject rules to the dictates of power with the end result being that the poor and weak will be the natural losers. This vision is indeed scary as it means that these countries will be forced to accept rules not in conformity with their development and which in many instances serve to hinder such development... Many developing countries believe their development agenda in the WTO is being bypassed in favor of rules that would benefit the rich and the powerful."[49]

He outlines his current understanding of the multilateral trade system and also his preferred vision:

"The 'multilateralism' of the past, with only one package or set of economic policy prescriptions for the global trading system consistent with the Washington Consensus, has not managed for the most part to lift most developing countries' economic status. What such 'multilateralism' has done has been to widen the wealth gap between developed and most developing countries, and contribute to a continuing decline in the long-term development prospects of the latter."

"The 'multilateralism' of the future, the one that developing countries believe in and strongly support, should be one in which the WTO helps create an enabling environment in which developing countries will be able to flexibly assess and adopt various policy models, approaches, and policy mixes in support of their development goals. It is one in which the policy space of developing countries to adopt and implement policies for the management of their economies and the increase in the standards of living of their peoples is preserved and maintained".[50]

Doha Package Penalizes Poor

The failures of the multilateral system to address developing countries interests, and the one sided rules, are beyond the scope of this paper. However, some examples include the Agreement on Agriculture, which continues to legitimize northern government subsidizes, whilst forcing developing countries to open up their markets, rendering them defenseless against dumping. In the Doha Round, much has been made of eliminating the export subsidies of the EU. The reality is that export subsidies of both the US and EU will be retained, but they will merely be made non-transparent, and legal within the WTO system through certain loopholes (the green box). The fight over domestic supports is more than a squabble

49 Rohee 2004 ibid.
50 Rohee 2004 ibid.

simply over markets. US and EU dumping has destroyed livelihoods in the poorest countries eg. West African cotton and tomato farmers, soy farmers in Indonesia, diary farmers in Jamaica.[51]

Other problematic WTO agreements include the TRIMS (Trade Related Investment Measures). TRIMS has prohibited countries from imposing conditions on foreign companies such as local content requirements, export-import balancing in terms of foreign exchange, and technology transfer. As an example, based on this agreement, the major economies have filed numerous cases against developing countries' automotive sector. In 1997, Japan (with US and EU as third parties) won a case against Indonesia, prohibiting Indonesia from imposing local content requirements, as well as tax exemptions to support its national car program. Such policy constraints have widened the industrialization and technology gap between developed and developing countries.

The developed countries have consistently blocked any real negotiations in this regard.

India and Brazil have called for a review of the TRIMS to reopen spaces for developing countries to use certain trade-related investment measures in their development policies. This review was endorsed in the Doha Declaration launching the Doha Round (as an implementation issue). The Doha Declaration states that provisions shall be included in the TRIMS agreement to provide developing countries with the necessary flexibility to implement development policies. However, to date, there has been no movement here. The developed countries including US, EU, Canada and Japan have consistently blocked any real negotiations in this regard.

Also in the current Doha Round, developed countries in the NAMA talks, are pushing for reduction of tariff levels across the board and on each and every single tariff line, leading to very low and eventually zero tariff rates; and reduction of tariff dispersion i.e. uniformity of tariff rates. This will apply to all developing countries except LDCs. Nevertheless, LDCs which are part of a regional customs union with non-LDC countries will be affected.

51 US overall domestic supports are more than $70 billion a year. For the EU, it is in the range of about 88 billion euros. (2001 figures according to the last WTO notification by the US and EU). Whilst expectations are being raised that the US and EU are cutting subsidies in the current Round up to 70%, a closer look at the loopholes of the WTO's Agreement on Agriculture reveals that this is not the case. These countries are simply cutting "water" – money that they can provide but are not currently doing so. They are also shifting their support payments from the WTO limited amber box, which houses what the WTO defines as "trade distorting" supports, and shifting this to the WTO "legal" category of the green box. There are no limits in the WTO on the amounts of subsidies countries can provide within this green box. According to 2001 figures, US provides up to $52 billion in the green box – 70 percent of their total supports.
The EU's CAP reform in 2003 was also about reforming EU agricultural policy so that producers could be given "direct payments" housed in the green box. EU is shifting up to 90 percent of its subsidies into this category.
If the Doha Round concludes, the decline in the figures for "trade distorting" amber box subsidies may look impressive, but overall supports for both the US and EU are not on the decline. (In the US, supports may dip slightly if current prices of key commodities remain high). Nevertheless the bulk of US subsidy payments of about $70 billion a year is likely to be maintained. Unfortunately, the green box is hardly clean, as was determined by the WTO's Appellate Body in the US – Brazil cotton case. UNCTAD's India Program co-ordinator Veena Jha notes that eliminating the distorting elements in the green box for both the US and EU would lead to production costs increasing by 15-30 percent in these countries. Their agricultural exports would correspondinly dip by 40-60 percent (The Financial Express 2006 "Green Box Subsidies are Trade Distorting", 28 October). Therefore, whilst both the EU and US claim that their subsidies, for the most part are non trade-distorting and do not constitute dumping, this is patently untrue. For more details of the misuse of the green box, see "Green But Not Clean" www.maketradefair.com/en/assets/english/greenbox.pdf

The EU is pushing for cuts which are much more aggressive for developing countries than developed countries, placing the burden on the developing countries.[52] In addition, as is the case with agriculture, tariffs are much more important for developing countries than developed countries. Most developing countries have no ability to subsidize, and they would require high tariffs when trying to establish new industries or when upgrading their existing ones.

Not only is the substance of negotiations stacked against developing countries' requirement for space to determine their own trade policies and regulations, the negotiating process also remains an exclusionary one.

Not only is the substance of negotiations stacked against developing countries' requirement for space to determine their own trade policies and regulations, the negotiating process also remains an exclusionary one.[53] As one African delegate to the WTO observes:

> *"We have never moved from the old GATT. It is still there. The system has not changed. It is still a rich man's club. The only difference is the participation of the weaker countries has increased. That is seen as the "change", but the organisation itself, and its operations have not changed."*[54]

He goes on to characterise the situation in early 2007 after the WTO's formal 'resumption':

> *"We are not having a multilateral process, but the bilateral and plurilateral agreements are being "processed" and passed through the multilateral route just to justify that the membership is on board. In actual fact, we are not having a member-driven negotiation."*[55]

Interestingly, Charlene Barshefsky, former United States Trade Representative (USTR) during the Clinton administration, and at the time of the Seattle conference, admitted recently in a blog that reference to development in the current Doha Round is a "false pretense". She writes,

> "The "Doha Development Agenda" does seem to overstate the case a bit. For the most part this round has been like any other, with the focus being on the market access concerns of the major trading powers. While large developing countries like Brazil, China and India now play a greater role in trade talks, the interests of the poorest countries still seem to be an afterthought in many ways."[56] (See table below)

52 EU is proposing the use of the "Swiss formula", and that developed countries use a coefficient of 10 and developing countries be given a coefficient of 15. This means that 15 will be the maximum tariff developing countries can have. The formula also cuts high tariffs by a larger proportion than low tariffs, bringing all down to similar low levels – hence it is known as a "harmonizing" formula. But since developing countries generally have higher bound rates than developed countries, the cuts they will have to undertake are much greater. If the EU proposal is approved, a tariff rate of 5% for developed countries will be reduced to 3.3%, a reduction of 33% or 1.67 percentage points. In contrast, a tariff of 60% for developing countries will be reduced to 8.8%, or a reduction of 85% or 51.2 percentage points. (Shafaeddin M 2006 "Beware of NAMA's Slippery Slope to De-Industrialization", SUNS, 15 June.)

53 At the time of writing in early 2007, the main negotiations are taking place only amongst four delegations – the US, EU, India and Brazil in informal, closed door meetings. Whilst there was a "formal resumpting" at the WTO in early February, there is a sense that meetings called by the Chairpersons of negotiating groups open to all members are merely meetings for formality's sake – to inform the Membership of negotiations which have been taking place elsewhere! These meetings are not negotiating meetings.

54 Informal conversation, 9 February 2007.

55 Ibid. For more information on the problematic process in the WTO, see Jawara and Kwa 2004 "Behind the Scenes at the WTO: The Real World of International Trade Negotiations". Zed Books.

56 International Economics Law Blog, Q&A with Charlene Barshefsky, 31 January 2007.

Table 1: **Former USTR Charlene Barshefsky's Views on Doha Round**
[Daniel Altman]: Will the conclusion of the round live up to any of the original expectations? [Charlene Barshefsky]: The round was launched on essentially false pretenses, in two respects. First, it was launched almost immediately in the aftermath of 9/11. I believe that but for 9/11, it almost certainly would not have been launched. As the six-year delay since then shows, but before 9/11 there was almost no enthusiasm for the round. 9/11 changed that. Countries believe that they needed to show solidarity with the United States and make a statement about the global economy and the importance of economic growth. So the round was launched. Second, the round was called a development round. Again, as the six-year delay shows, there may have been the broad intention on the part of the wealthy nations to make this a development round, but their ability to execute has always, in important respects, been absent, something clear from the outset, rhetoric aside. At the end of this process, what will undoubtedly be portrayed as an important victory will, I believe, be far less than what it should have been had the wealthy nations genuinely pursed a development round. While development issues have been addressed in a number of ways in the negotiations, naming the round the "Doha Development Agenda" does seem to overstate the case a bit. For the most part this round has been like any other, with the focus being on the market access concerns of the major trading powers. While large developing countries like Brazil, China and India now play a greater role in trade talks, the interests of the poorest countries still seem to be an afterthought in many ways."

Source: International Economics Law Blog, 31 January 2007

Alarming Expert Assessments: Doha to Cause More Harm than Good

Expert assessments of the projections for the Doha Round, published in 2005 and 2006, confirm that the concerns of developing country negotiators are not misplaced.

Whilst agriculture in the multilateral negotiations has widely been seen as the area which would reap benefits for developing countries, the FAO issued a press statement upon the collapse of the Doha talk in mid 2006 stating that

> *"The approach adopted in the talks was flawed from the outset. It failed to take sufficient account of the interests of developing countries and focused on 'free trade, rather than fair trade.'"* [57]

The approach adopted in the talks was flawed from the outset. It failed to take sufficient account of the interests of developing countries and focused on 'free trade, rather than fair trade.'

57 FAO Press Release 8 August 2006 06/89e.

The statement goes on to say that whilst the negotiations were expected to address trade issues related to the needs of poor countries and small farmers,

> *"They never quite got round to these issues and as a result the Doha Round collapsed because of a fundamental lack of fairness in its vision, its process and its projected outcomes".* [58]

Also, widely publicized before the Hong Kong WTO Ministerial of 2005, was the World Bank's 2005 revision of the Round's gains from a sky-high $832 billion to a modest $96 billion for a "likely Doha" scenario. Of this, only a meager $16 billion was to accrue to developing countries and even that only amongst a few, such as Argentina, Brazil and India.

> "*Bangladesh and many African countries benefiting from preferences are likely to face losses".*[59]

The EC's own Sustainability Impact Assessment (SIA), confirmed the Bank's projections for losses for the poor.

"In Sub-Saharan Africa poverty may worsen as they stand to lose economically from trade liberalization and face severe supply-side constraints."

> *"In sub-Saharan Africa for example, poverty may worsen as they stand to lose economically from trade liberalization and face severe supply-side constraints. This adjustment period, associated with increased unemployment or underemployment "can be severe… where social protection is weak or absent". The SIA also stated that countries too could face "a significant loss of tariff revenues, with possible negative indirect social impacts".*[60]

The Carnegie Endowment for International Peace conducted a study by Sandra Polaski, "Winners and Losers: Impact of the Doha Round". The study concludes that the results run

> *"counter to the commonly held view about the Doha Round, namely that agricultural liberalization benefits developing countries and therefore is key to achieving the development goals of the Round. In fact, agricultural liberalization benefits only a relatively small subset of developing countries".*

Her study illustrated that even if developing countries could assign all products as "special products" in the agricultural negotiations (subject to less stringent liberalization commitments), they would still lose out![61]

Polaski concluded that the poor were going to lose out from Doha. This included "many of the LDCs, including Bangladesh and the countries of East Africa and the rest of Sub-Saharan Africa".

58 FAO ibid.
59 Anderson and Martin 2005 "Agricultural Trade Reform and the Doha Development Agenda", World Bank.
60 Kirkpatrick C, George C, and Scrieciu S 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:www.sia-trade.org/wto/FinalPhase/GLOBALOVERVIEW_FINALMay2006.pdf
61 Polaski S 2006 "Winners and Losers: Impact of the Doha Round" by Carnegie Endowment for International Peace.
62 Polaski S ibid.

The World Bank: One-Sided Advice?

The World Bank has been an ardent promoter of the neo-liberal paradigm. In fact, as recent research shows, it promotes neo-liberalism to such a degree that it even manipulates data in order to maintain the paradigm. Robin Broad gives the example of the 2003 Bank document on Lessons from NAFTA for Latin American and Caribbean Countries. The summary of the document states "real wages [in Mexico] have recovered rapidly from the 1995 collapse". However, the text did not support that conclusion. One of the tables showed that real wages had dropped since 1994.[63]

Similarly, an independent evaluation of the World Bank Research, from 1998 – 2005, carried out on behalf of the Bank by Angus Deaton of Princeton University along with other academics sharply criticized the Bank for the use of questionable evidence, the drawing of unsupported conclusions in order to

> *"... proselytize on behalf of Bank policy, often without taking a balanced view of the evidence, and without expressing appropriate skepticism. Internal research that was favourable to Bank positions was given great prominence and unfavorable research ignored..."*[64]

In the context of the Doha negotiations, the World Bank in 2006 published a report on Special Products (SP), arguing that the G33's desire to maintain their current tariff levels for up to 20% of their tariff lines is likely to be detrimental for developing countries. The study says that countries protecting their markets through SPs will see a substantial rise in the price of staples. This, the Bank says,

> *"would create large increases in poverty – sufficient in some cases to undo decades of development progress – and push the already poor deeper into poverty".*

According to an official press release of the Indian government,

> *"[T]he G33 conveyed to the World Bank that there would be a serious reputation risk for the World Bank in promoting such a paper that had inferred on the basis of unwarranted assumptions that raising agricultural prices substantially through SPs "would create large increases in poverty"".*

The press release continues,

> *"The G33 pointed out that the Ivanic-Martin paper ignores the reality of price declines, volatility and predatory competition, including dumping of heavily subsidized products which raises the risk levels of developing*

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65 Broad R 2006 "Research, Knowledge, and the Art of Paradigm Maintenance: The World Bank's Development Economics Vice-Presidency (DEC)", Review of International Political Economy, Vol. 13, No. 3, August. The condensed version was published in SUNS #6183

64 Deaton A et al 2006 "An Evaluation of World Bank Research 1998 – 2005", 24 September, World Bank.

The multilateral institutions have pushed an agenda that has not borne positive results for the poor. Powerful economic and political interests have biased the policies and conditionalities.

countries without providing an adequate safety mechanism or flexibility to deal with the adverse impacts of trade policy changes for their vulnerable agricultural sectors... At the very least, the G33 has urged the World Bank to substantially modify this fundamentally flawed paper as a matter of priority."[65]

The multilateral institutions, as powerful custodians of the trade system, have pushed an agenda that has clearly not borne positive results for the poor. Powerful economic and political interests have biased the policies and conditionalities they have embraced, even as they claim to speak for the disadvantaged.

65 Government of India, Department of Commerce 2007 "G33 Blasts Draft World Bank Paper on Special Products as Anti-Development", Press release, 12 January, www.commerce.nic.in/Jan07_release.htm#h13

5. Rethinking the Trading System

In his speech when receiving his Nobel Peace Prize, Muhammad Yunus captured it well:

> *"We get what we want, or what we don't refuse. We accept the fact that we will always have poor people around us, and that poverty is part of human destiny. This is precisely why we continue to have poor people around us. If we firmly believe that poverty is unacceptable to us, and that it should not belong to a civilized society, we would have built appropriate institutions and policies to create a poverty-free world."*[66]

How would we change the trading system, our institutions and national policies if we were to take seriously the challenge of making the trading system work for all, and particularly the poor?

a) Guiding Principles

Rebalancing Power

As stated earlier, the rising power of the big players in the global market place, in determining trends, prices and in maintaining their monopoly position, is not separate from the powerlessness of the small farmers, and the vulnerable industries and services sectors that are characteristic of low-income countries. If the situation is to change for the powerless in the national and global economy, there must be checks and balances in the power of the biggest players. This power shift has to be consciously implemented at all levels, from the national, regional to the multilateral rules arena. It means implementing effective measures to limit the size and influence of multinational corporations in the global market place. It also means reshaping trade rules to enhance the capacity of the weak, even if this contradicts the neo-liberal sacred principle of "efficiency".

If the situation is to change for the powerless, there must be checks and balances in the power of the biggest players.

Prioritizing Human Rights and Human Development

The trading system currently operates in such a way that does not give value to human rights, human development or equity. Lip service is paid to "development", but on closer examination, it is market access and profits of the biggest corporations that drive the system. Many would say of the WTO, "Of course this is the case, this is after all a trade organization!" Yet the WTO's own preamble sets out goals that are bigger than profits or the narrow focus of increasing trade flows. The Agreement Establishing the WTO states that parties to the agreement recognize

66 Yunus M 2006 "Nobel Lecture", 10 December, Oslo. http://nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html

> *"[T]heir relations in the field of trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development..."*[67]

The WTO system has not chosen to reflect on the now clear empirical evidence of the failures of neo-liberal policies, and has not accordingly allowed itself to recalibrate its priorities, values and ways of functioning.

Yet the WTO functions in a manner which is out of integrity with its own mandate. Ensuring full employment and raising living standards are not the yardsticks of the developed countries when they push their agenda in the Doha negotiations. The system operates on the belief that neo-liberal principles will de facto be the best development policy for developing countries. Developed countries themselves, however, find as many avenues as possible to protect their sensitive sectors.[68] The system also has not chosen to reflect on the now clear empirical evidence of the failures of neo-liberal policies, and has not accordingly allowed itself to recalibrate its priorities, values and ways of functioning.

Developing countries and peoples must reclaim the "human rights" discourse for their own development objectives. To date, developing country governments have tended to steer clear of using human rights because national governments themselves are not meeting their obligations and also because it has been misused by the powerful nations to justify military intervention or to impose neo-liberal policy conditionalities on others.

In the WTO, references to rights by the developed countries have been extremely selective, pertaining only to labor and environmental rights. Not surprisingly, developing countries have viewed these attempts as insincere, since their main concern – the right to development – is being simultaneously and repeatedly marginalized.

A number of human rights advocates are arguing for trade law to be subsumed under the UN human rights charters, including the Universal Declaration on Human Rights, as well as the International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights. Such an approach should be supported. Under these laws, states have the duty to ensure the conditions of basic economic security and social participation of citizens.[69] According to the Universal Declaration on Human Rights (UDHR) of 1948:

"Everyone has the right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care" (Article 25 UDHR).

> *"Everyone has the right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care"* (Article 25 UDHR).

The other social and economic rights enshrined in the UDHR include the right to social security, the right to work, the right to equal pay for equal work and the right to education (Articles 22–27).

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67 WTO 1994 "Agreement Establishing the World Trade Organization".
68 Whilst asking developing countries to drop their industrial tariff levels in the current Round, the US behind the scenes, has been pushing for textiles to be treated on a separate track, so that tariffs on textiles, which remains a sensitive sector for them, can be higher than tariffs in the other sectors.
69 Sachs W and Santarius T, (eds) forthcoming "Slow Trade. A Framework for Sustainable Global Markets in Agriculture", EcoFair Trade Dialogue.

Taking account of human rights obligations – enshrined in internationally agreed upon law – can provide important criteria by which governments can evaluate policy options. If taken seriously, these obligations cannot be subject to bargaining or trade-offs. This should translate into putting the discriminated, vulnerable and disadvantaged at the heart of policy making.

In the words of Mary Robinson, former UN High Commissioner for Human Rights, a human rights perspective will

> *"Shift the focus of analysis to the most deprived and excluded, especially to deprivations caused by discrimination. It will permit policymakers and observers to identify those who do not benefit from development. This is extremely important because so many development programs have caused misery and impoverishment inadvertently or out of sight, because planners only looked for macro-scale outcomes and did not consider the consequences for particular communities or groups of people. The ability of human rights to force attention towards those who lose out is a specific contribution this framework can make to policy making and development planning."* [70]

Using human rights as the underlying rationale for the functioning of the trade system will radically change the multilateral trade system. It would be difficult to account for most of the issues under negotiations in the Doha Round – agriculture, NAMA, services, since for the vast majority, these negotiations threaten countries' ability to fulfill the economic and social rights of their citizens.

Using human rights as the underlying rationale for the functioning of the trade system will radically change the multilateral trade system.

Sovereignty and Extra-Territorial Responsibility

Sovereignty of countries should be enshrined in the trading system. It is about respecting the most basic premise of democracy. Citizens of each country should be able to decide the way in which they want their economic life, food system and social services to be run. Developing countries, for example, arguing for policy space in the multilateral institutions have been ridiculed in recent years. (The debate has been fairly acrimonious in the UNCTAD context.) Their efforts to assert their sovereignty should be encouraged by the international community, not restricted. They should have the right to set their own industrial tariff rates and other domestic regulation that befits their development objectives without outside coercion, from bilateral partners or through the multilateral agencies.

The Europeans, for example, have strong preferences with regards to food and human health, and would like to keep genetically modified foods from entering their borders. These measures should be allowed on the grounds of sovereignty and that people in Europe should be given the right to exercise their choices.

Yet sovereignty should extend only to the point where no harm is done to others. The same European countries, in protecting their own food producers, are overproducing and dumping food on other countries, displacing the livelihoods of

Yet sovereignty should extend only to the point where no harm is done to others.

70 Robinson M 2005 "Realizing Rights: Challenges for the International Forum for Development", in Hersberg E and Thornton C (eds) 2005 The Development Imperative: Toward a People Centered Approach, Social Science Research Council.

others. Such infringements of others' rights should be immediately and strictly prohibited. In fact, sounding the alarm when countries overstep their boundaries, and taking the appropriate action to put a stop to such practices should be the raison d'être of any agency that see itself as a guardian or preferably, one of many guardians, of the trading system.

Things have been turned upside down in the current system. The rich countries have more scope to define rules which protect their sovereignty (agricultural subsidies is a good example), and are not called to account for the damage they do outside their jurisdiction (agricultural goods are dumped across the developing world). Economically weak countries which have hardly any share of world trade, and little or no possibility of infringing on others' rights, have found their sovereignty curtailed. Their hands are tightly bound in terms of what they can and cannot do under the current trade regime (e.g. liberalization of tariffs making it impossible for them to protect their producers).

Infringing the economic and development rights of others must be made illegal. Eg. EU's Common Agricultural Policy and the US' Farm Bill must be made illegal under international trade law because of their dumping effects on other markets and the deleterious impact on people's livelihood. Means must also be devised for governments to discipline their citizens and corporations when they infringe on the human, economic and development rights of others.

Environmental Sustainability

Global environmental footprint is 25% beyond the capacity of the global environment to reproduce itself.

The system should not result in the use of environmental resources at a rate faster than resources can be renewed. According to development economist David Woodward, our global environmental footprint is 25% beyond the capacity of the global environment to reproduce itself. We need a permanent reduction in the environmental impact of our economic activity if we are to sustain the planet.

This requires a radical shift in how we organize our trade and economic life: no longer shipping goods from one corner of the earth to another but taking seriously the principle of consuming goods that are produced locally or regionally, and redefining and recalculating economic growth, so that the full costs of our utilization of natural resources are taken into account. The economic system needs to reinforce the conservation of our natural resources, rather than their commodification, as is currently the case.

Cooperation and Solidarity, not Competition

When observing WTO negotiations, it is clear that governments push for what is best in their own countries, without considering the impact on others.

Whilst we have become "globalised" in what we consume, in our access to information from all parts of the world, our governance systems have yet to reflect a "global" perspective in addressing the concerns of the world. When observing WTO negotiations, it is clear that governments push for what is best in their own countries, without considering the impact on others.

If we are indeed to bring about the world where poverty is no longer a reality, it is likely that within the economy and the rules governing the economy, a certain shift in values has to take place, from one based on pursing narrow interests, to one which puts as priority, the concerns especially of the most vulnerable, both within countries, but also at the global level, that is, a system based on cooperation and solidarity. Karl Polanyi speaks of re-embedding the economy in society, rather than society being driven by the economy. In today's context, we need to re-embed the economy in the global community.

b) National Development Strategies

How would we reorganize the trade system and economy at the national level?

Investing in Human Development

Francis Stewart and Gustav Ranis did a study of developing countries' economies from Latin America, Africa and Asia from 1960 – 2001. They found that countries which had high economic growth and which prioritized human development (education, health, nutrition etc) tended to sustain both their economic growth and human development (HD). These countries were mainly in Asia.

Conversely, countries that did not prioritise human development ended up in a vicious cycle of poor economic growth (sub-Saharan African countries and a significant number of Latin American countries). There were countries that had weak economic growth, yet prioritized human development and eventually broke out and advanced economically. However, they did not find evidence of countries having high economic growth, low prioritization of human development, sustaining their economic growth. Invariable, the low prioritization of human development was a brake in their ability to make sustained progress economically.[71]

According to the authors,

> *"Economic growth (EG), which is an important input into HD improvement, is itself not sustainable without improvement in HD. Economic and social policies have tended to focus priority on getting the economic fundamentals "right" as a necessary precondition for economic growth, arguing that HD improvement must await such economic growth – for example, in the classic "Washington consensus". In sharp contrast, our findings contradict the view that HD improvements may be postponed until economic resource expansion makes it affordable. If HD improvement is postponed in this way, EG itself will not be sustained".*[72]

„If human development is postponed, economic growth will not be sustained."

Relocalize, Reclaim and Broaden National Economies

The lessons from structural adjustment has also shown that gearing economies towards specializing in certain sectors where countries have "comparative advantage", rather than diversifying, and developing capacities across the board, is not

71 Ranis G and Stewart F 2005 "The Priority of Human Development", in Hersberg E and Thornton C (eds) 2005 The Development Imperative: Toward a People Centered Approach, Social Science Research Council.
72 Ranis and Stewart ibid, p. 47.

working for the poor. The economies that have succeeded are invariably the ones that have not concentrated on their static comparative advantages, but have developed a diverse range of production capacities, often, even despite the high costs (e.g. maintaining agricultural production in Europe).

There are "ghettos" of economic production for exports, with few, if any backward or forward linkages with the rest of the national economy.

When economies are geared towards static comparative advantage and export orientation, as in the case in most low income countries, as a result of Bretton Woods policy conditionalities, the national economy is frequently segmented. There are "ghettos" of economic production for exports, with few, if any backward or forward linkages with the rest of the national economy. At the same time, those sectors seen to be "uncompetitive" are left to languish, for example the social sectors, or local food staples as these are seen as sectors which cannot generate revenues for debt repayments.

In Venezuela, Hugo Chavez talks about the need to re-colonize, but this time by "our own people". He emphasizes the need for Venezuela to reclaim its own economy and resources, and to rebuild its own production capacities in order to meet local needs. He is doing that by renationalizing the country's natural resources, as well as reorienting production patterns to suit local needs.

Author Richard Gott writes about Chavez's views about the national diet, which over the years has moved from rice, a crop that is suited to the local climate, to wheat which is not grown in the country, but has become popular because of cheap US imports. One of Chavez's goals is to revalorize the rural economy by promoting rice as the national diet once again.[73] Towards the same ends – to bring life back to the rural economy, as well as to rebalance the political and economic power in a country and to give the poor access to resources – Bolivia's Evo Morales has also embarked on ambitious land reform plan of some 54,000 square miles for 2.5 billion people (28 per cent of the population).[74]

Relocalization, however, is not only done by "pink" or "red" leaders hated by Washington. Pockets of communities within the United States are experimenting with localization. One of these examples is Woodbury County of Iowa – right in the heartland of US industrial agricultural production. Iowa has the highest production of corn and the second highest production of soybeans in the United States. Yet little Woodbury County has passed ordinances promoting local foods. The central aim of the county has been to foster rural development. According to the Food & Society Update, Rob Marqusee, the Director of Rural Economic Development for County

> *"believed that local, agriculture-based economies were key to revitalizing rural communities".*

He needed numbers to back his claims. According to Iowa State University, if 25% of the fruits and vegetables consumed in Iowa were grown in the state, total new sales in Iowa would increase by nearly $140 million, and $54.2 million in addition labor income would be paid to 2,030 job holders, of which 190 would be working on farms.[75]

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73 Gott R 2005 "Hugo Chavez and the Bolivarian Revolution", Verso Books.
74 Weisbrot, M 2006 "Latin America: The End of An Era", http://www.stwr.net/content/view/107.
75 Food and Society Update 2006 "The Case of Woodbury County", Vol 5 Issue 1 January. www.leopold.iastate.edu/news/inthenews/FASUpdate_0106.pdf

In June 2005, the County passed an "Organics Conversion Policy" encouraging new entrants into the county to take up organic farming practices. The new legislation also offered up to $50,000 annually in property tax rebates for those who convert from conventional to organic farming practices. In January 2006, the County became the first in the US to mandate the purchase of locally grown organic food. The "Local Food Purchase Policy" requires Woodbury County departments to purchase locally grown, organic food from within a 100 mile radius. The local government is projecting that the $281,000 in annual food purchases will be shifted to a local farmer-operated cooperative, increasing local demand, production and processing. Over time, the County aims to showcase how county policies work in building sustainable regional food systems that foster rural development.[76]

The diversification of a country's economy and reorientation from wholly being export and outward oriented, to the achievement of broad-based economic production capacities requires resources. Again, whilst developing country governments have often looked to outside investors to jump-start building local capacities, as far as possible, local resources should be used for this process. Partnership with foreign corporations can be beneficial if well-regulated. However, this remains a difficult challenge for low income developing countries. It requires a certain level of institutional development and maturity, which many developing countries do not yet have. Also, the companies are usually more powerful and with more financial resources available than national governments, creating difficulties during negotiations. They often also have different priorities, as Kessler and Alexander point out, in relation to the privatization of public services,

Whilst developing country governments have often looked to outside investors to jump-start building local capacities, as far as possible, local resources should be used for this process.

> *"Corporations have little incentive to invest in "unprofitable people"...They are less likely to go into peri-urban, slum or rural areas, where topography is more difficult, per capita consumption is less, and most importantly, incomes are lower"*.[77]

There is also need for debt cancellation so that domestic savings can actually be redirected towards the building of domestic economies.

Reclaiming Local Resources and Democratizing the Economy

Around the developing world, there are many struggles to capture ownership of nationally based resources that have been under the control of big corporations through privatization.

Bolivia's commitment to re-negotiate its gas revenues with the gas producers has contributed to increased national income in the last two years. Royalties increased from 3.4 percent of GDP in 2004 to 6.7 percent in 2005. This figure was expected to increase to about 10 percent in 2006.[78]

76 Food and Society Update 2006 ibid.
77 Kessler, T. and Alexander, N., Assessing the Risks in the Private Provision of Essential Services, UNCTAD G24 discussion paper, 2004, p. 11.
78 IMF 2006 "IMF Executive Board Concludes 2006 Article IV Consultation with Bolivia", Public Information Notice (PIN) No. 06/77, 19 July. http://www.imf.org/external/np/sec/pn/2006/pn0677.htm.

Reclaiming national resources allows countries to invest these resources locally and frees countries from dependence on private investors.

Reclaiming national resources allows countries to invest these resources locally and frees countries from dependence on private investors, or at least gives countries more leverage vis-à-vis regulating these investors.

The denationalization program currently underway in Bolivia has moved in tandem with the reclaiming of democratic decision making of the economy by the Bolivian people. It is only logical that when a country moves towards real democratization, the economy becomes subservient to people's needs and the attainment of their rights. Social objectives are treated as paramount, not as an afterthought through the provision of ineffective "safety nets".

Competition Policy

Competition policy is important if a country is to ensure that power along the production chain is distributed more equitably. If large companies are needed in order to achieve efficiency, then the behavior of these companies should be closely regulated. The range of competition policies includes anti-trust (anti-monopoly) and other state regulations that prevent restrictive business practices, such as collusion, mergers, predatory pricing, etc.

The US, EU and Japan have had several decades of experience with competition policy. The most important lesson to take from their experience is that they each experimented with their own particular brand of regulation to meet their needs. Japan's competition policy was driven by its industrial policy.

At the time of Japan's industrialization, there were already big companies which the Japanese government wanted their corporations to compete with. As a result, the Japanese competition policy did not view cartels as necessarily bad, but the Ministry of Trade and Industry managed the situation by playing oligopolistic firms against one another, and rewarding those with good export performance or technological innovation with subsidies and import protection.[79]

In the US, competition policy is less stringently implemented if it is shown that market size leads to consumer benefit such as lower prices. In this scenario, anti-trust law does not kick in.

What kind of domestic competition policy could reinvigorate developing countries' domestic economies?

The EU approach has been focused on disciplining the size of corporations.

What kind of domestic competition policy could reinvigorate developing countries' domestic economies? All countries should have competition policies to oversee the functioning of corporate / private sector activity. Firms capturing more than a certain size of the market should not be allowed, although, as with the Japanese case, this should be closely calibrated with the industrial policy of the country. Beyond some common competition laws – such as the need for transparency and disclosure of inter-firm contracts, it is also likely that sector-specific regulation may be more suitable and the regulation may change as the economy grows.

79 Malhotra K 2006 "National Trade and Development Strategies: Suggested Policy Directions", Background Paper prepared for the 2006 Report "Trade on Human Terms: Transforming Trade for Human Development in Asia and the Pacific", UNDP June 2006.

Given the globalization of markets, domestic competition policy has to be complemented by competition policy at the regional / multilateral levels.[80]

Agriculture

Agriculture remains a critical sector for meeting the human development needs of the majority of the poor today. It is still the sector that provides the largest source of employment. According to FAO findings, there is a high degree of correspondence between patterns of agricultural growth and poverty reduction. "In practice", they say,

Agriculture remains a critical sector for meeting the human development needs of the majority of the poor today.

> *"there are few obvious alternatives to agriculture as drivers of broadly based growth in countries still in the early stages of development"*.[81]

However, such positive outcomes take place only if the sector has substantial linkages with the local economy. According to their studies,

> *"such linkage rich agricultural development will generally be encouraged by labor intensive, rather than capital and /or specialist knowledge intensive methods of production, by more equitable distribution of income, by local consumption patterns favouring local rather than imported goods and services."*[82]

FAO has also found that the export strategy has not reduced poverty, even in the region that exports the most agricultural products – Latin America. Those that have not benefited include the small farmers.[83]

FAO has found that the export strategy has not reduced poverty. Those that have not benefited include the small farmers.

Instead, the institution says that capturing large domestic markets are an important development strategy. They cite the example of Asia – such as Indonesia (before the implementation of IMF conditionalities during the financial crisis) – where internal markets facilitated the marketing of surplus commodities to deficit areas, helping to stabilize prices. Although domestic markets are small in Africa, regional markets can play the same role.

Many developing countries used to have state trading enterprises which managed supplies and stabilized prices nationally, as well as ensured that food is distributed to deficit areas. Presently viewed with suspicion by the multilateral institutions for "distorting local markets", these are valuable institutions which should be revived (and reformed to correct the problems that existed such as poor management and corruption) for the support they provide to small farmers since they enhance food security through their distribution functions and can help provide more stability in rural incomes.

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80 The EU's push for a competition agreement in the WTO when the Doha Round was launched is not the type of multilateral competition policy envisaged in this paper. EU's competition policy would have prohibited developing countries from treating foreign companies differently from local companies. Given the size and power of developed country corporations, the effect in developing countries would have been "anti-competitive". Rather than encouraging a multiplicity of players, local firms would have lost out.

81 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. p. 3. http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/009/j7724e/j7724e00.htm

82 FAO 2005 ibid.

83 FAO 2005 citing Foster and Valdes.

Supply-side management should also be implemented i.e. matching supplies with demand, as is done in the Canadian and Indian dairy sectors. This is dealt with in a later section.

Also a major component of economic democratization is comprehensive agrarian reform with a strong land redistributive component, and also legally ensured rights to territories for peasants, fishers, pastoralists, indigenous peoples, as well as fair wages for agricultural workers.

Developing Industrial and Services Sectors

Various economists such as Dani Rodrik and Ha Joon Chang have written at length about the need to protect infant industries. Even middle income countries – such as Mexico – need the policy freedom to protect certain sectors.

Ha Joon Chang in particular has documented the types of policy tools countries such as Korea and Taiwan have used. In Korea, quantitative restrictions prohibited or restricted up to 40 per cent of imports until the early 1980s. Also, domestic regulations necessitated a government license before one could import machinery and other inputs, even if these items were technically freely importable.[84]

Similarly, Taiwan discouraged imports of goods that competed with domestic product. Like Korea, importers required government licenses to operate.[85] Chang also gives the example of how Korea created "comparative advantage" in the steel industry in the late 1960s when it had no natural advantages in this sector, and was even dissuaded by the World Bank. The country did not even have the key raw materials – iron ore and coking coal. These were imported from as far away as Australia. High tariff production was provided to ensure the survival of the new producer, and the company was run as a stated owned enterprise until several years ago. Ten years after it was set up, it was the tenth most efficient producer and is currently the fifth largest steel producer in the world.[86]

Developing the services sector in developing countries should be no different. In fact, services trade is even more concentrated.

Developing the services sector in developing countries should be no different. In fact, services trade is even more concentrated. Countries that have succeeded have done so through highly state interventionist policies – the provision of subsidies, tax exemptions, infrastructure and research support, not to mention support through political means. Temasek Holdings and Singapore Telecom (SingTel) are prime examples. SingTel is Southeast Asia's biggest phone company and it operates as a private corporation. However it is a subsidiary of Temasek Holdings, the investment arm of the Singapore government which is 100% owned by the Ministry of Finance. Temasek Holdings retains a majority stake in the SingTel, over 60%, and in turn, the Ministry of Finance retains veto power over the decisions of Temasek Holdings. Other companies of Temasek Holdings include Singapore Airlines, DSB Bank and Singapore Power.[87]

84 Chang, H J 2005 "Why Developing Countries Need Tariffs: How WTO NAMA Negotiations Could Deny Developing Countries' Right to a Future", South Centre.
85 Wade R 1990, cited in Change ibid.
86 Chang HJ 2005 ibid.
87 http://en.wikipedia.org/wiki/Temasek_Holdings

The paper does not advocate that all corporations grow to the size of Korea's steel industry or Singapore's SingTel[88] – SingTel's main subsidiary is Optus, Australia's second largest telecom provider, and other subsidiaries include Telkomsel in Indonesia, Globe Telecom in the Philippines and Bharti Telecom in India.[89] The point, however, is that the development of local industries requires, at least in the initial stages, the use of certain "protectionist" trade policies. Also, rather than curbing efficiency, government support can be the critical ingredient in grooming companies, especially in their initial stages of growth.

Rather than curbing efficiency, government support can be the critical ingredient in grooming companies, especially in their initial stages of growth.

c) Regional Development and Trade Strategies

> *"Only in coordinated action could the small independent states of Southern Africa achieve the strength and the power necessary to resist those who were tempted to exploit the region and perpetuate its economic fragmentation and dependence"*
> Julius Nyerere[90].

Regional integration has been a popular strategy governments have dabbled with, to greater or lesser degrees, in the search for development. Today, there are two diverging theories of regional integration – one based on the neo-liberal market orientation, or open regionalism, and the development integration school of thought.

Open Regionalism vs. Development Integration: The Case of Africa

Since the ascendancy of neo-liberalism in the 1980s, development integration, in vogue in the 1960s and 70s, has been on the retreat. In Africa, the neo-liberal integration model has been embraced by the region's leaders through initiatives such as the New Partnership for Africa's Development (NEPAD). Market-oriented regionalism is also being pushed on the African, Caribbean and Pacific (ACP) countries by the European Union in the current Economic Partnership Agreement (EPA) negotiations.

Within the neo-liberal paradigm, the steps towards economic and trade integration are outlined in the box below.

88 Temasek Holdings was sharply criticised in Thailand when it attempted to buy Shin Corporation, the Thai Telecommunications company, which was partly owned by the Thaksin family.
89 http://www.totel.com.au/singapore-telecommunications-research.asp?toc=304&cid=SG
90 Kanyenze G, Kondo T and Martens J (eds) 2006 "Free Trade and Regional Integration in Southern Africa", in ANSA Alternatives to Neo-liberalism in Southern Africa: The Search for Sustainable Human Development in Southern Africa.

Table 2: **Theory of Neo-Liberal Regional Economic and Trade Integration**	
Stage	**Key Element**
Preferential Trade Area	Members charge each other lower tariffs than those applicable to non-members, but customs duties are still levied on imports from other members and there is not yet free movement of goods within the area.
Free Trade Area	No duties are applied to goods from other members, but each member determines its own tariff policy in relation to goods imported from outside the area.
Customs Union	Trade with non-members is governed by a common external tariff. Each member therefore gives up sovereignty to determine its own tariff policy.
Common Market	There is free movement of capital and labour, as well as of goods. Some harmonisation of fiscal and monetary policy also takes place.
Economic Union or community	There is either a single currency or joint management of monetary policy.
Political Union	The political institutions of member countries are unified or federated.

Source: Cheru F 2002.

This is largely the path the EU has embarked upon, although the European Union, whilst freeing trade within the Union, has been strategic and selective in opening itself up to the world economy. The EU also has certain policies to assist the less developed members within the Union.

In contrast, in the context of EPAs with the ACP, the EU is attempting to transform the non-reciprocal Cotonou Partnership Agreement into reciprocal free trade pacts. The EU's agenda for the EPAs goes even beyond the WTO Doha Round agenda in terms of ambition. The EU is asking for liberalization in industrial and agricultural sectors based on applied tariffs, rather than bound tariffs as in WTO negotiations; opening a wide range of services sectors; as well as liberalizing countries' investment, competition and government procurement regimes. The latter were issues rejected by the G90 (Africa Group, LDCs and ACP) for inclusion in the Doha Round. In pushing Africa towards a purely market-oriented approach to regional integration, donors and partners seem to have completely overlooked Africa's immediate needs: enhancing production capacities using a range of policies which have worked, and continue to work for the developed economies.

In pushing Africa towards a purely market-oriented approach to regional integration, donors and partners seem to have completely overlooked Africa's immediate needs.

Many political activists and analysts in Africa have denounced this form of regionalism. Yash Tandon terms the market-oriented regionalism as "perverse integration".[91] Godfrey Kanyenze et al reason that such a model is less relevant to regions such as Africa because African economies are less developed – primary production dominates and foreign trade is directed towards the industrial countries.

> *"In this situation, tariff reduction or elimination does not lead to increased regional trade, integration or the efficient utilization of the region's resources".*[92]

Instead, there may be some strong players that benefit, but most small players will be adversely affected by the increased competition.

The regional integration that Southern leaders such as Julius Nyerere had dreamt of in the 1960s and 70s was the development integration model. They saw this as the strategy that could help them close the gap with the industrialized countries. According to Kanyenze et al,

> *"the original approach of viewing regionalism (was) a collective defensive instrument to protect local economies and industries from wider competition…".*[93]

It stressed co-ordinated industrial development with the help of a bigger regional market; regional funds or banks provided to less advantaged members; and assistance to the less developed countries within the group in terms of technology transfer and the building of production capacities.[94]

Rather than focusing on maximizing efficiency, the emphasis is on cooperating with one another to stimulate the creation of productive capacities. Instead of seeing trickle-down as the way benefits would be distributed, the development integration model emphasizes the importance of cooperation, and the use of corrective measures in order to have equitable development between members.[95]

This approach to regionalism has the potential to fulfill the principles of a new trading system set out above. It is a model that could be based on cooperation rather than competition; it could be mindful of prioritizing human rights and people-centered development. Above all, it begins with countries' needs as the starting point, rather than a time-table for trade liberalization characteristic of the open regionalism model.

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91 Tandon Y, cited in Kanyenze G et al. 2006 ibid.
92 Kanyenze G et al (eds) 2006 ibid.
93 Kanyenze G et al. (eds) 2006 "Macroeconomic Framework and Finance" ibid. p. 73.
94 Fantu Cheru explores Africa's poor track record in regional integration, even during the 1960s and 70s. The reasons Cheru cites includes the prevalence of weak institutions and an unfavorable policy environment that did not make intra-regional trade within the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) conducive. There are import controls, export licensing customs hold-ups, restrictive exchange controls, even complicated visa requirements, shortage of foreign exchange, inadequate transport and communications networks. This made it difficult for producers to take advantage of regional markets. In addition, Africa's trade routes continue to be closely tied up with Europe. The bulk of SADC's trade, 77%, is with Europe. The physical and financial infrastructure has also been developed to facilitate trade with Europe, rather than intra-regional trade. Furthermore, Cheru observes that many of the purchases from overseas suppliers are tied directly to aid programmes, favoring imports from countries providing the aid. "Nearly two-thirds of capital and commodity aid, and an even higher proportion of technical assistance, is tied in this manner". Cheru F 2002 "African Renaissance: Roadmaps to the Challenge of Globalization", Zed Books.
95 Kanyenze G et al (eds) 2006 "Free Trade and Regional Integration in Southern Africa", p. 266.

Regional Cooperation: New Experiments in Latin America

In stark contrast to the market-oriented regionalism pushed onto Africa and also Asia, exciting experiments are underway in parts of Latin America to put in place regional cooperation mechanisms that are responsive to the needs of people. These regional initiatives remain nascent, and their effectiveness remains to be seen. The more skeptical observe that the region's experiments, enabled by high oil prices obtained by Venezuela could be curtailed should oil prices dip, and some question whether such a model can be replicated by other regions without similar levels of resources. These are valid questions. Nevertheless, the experiments could be a model in terms of the principles of regional cooperation and solidarity.

According to Laura Carlsen, people across Latin America have been rising up against neo-liberal policies because the

> *"majority has reached the limits of its patience with the promises of the economic model. The hope-killing combination of poverty inherited from generation to generation, growing unemployment and under-employment, and an in-your-face concentration of wealth has led inevitably to opposition."*[96]

Venezuela and Cuba set up ALBA as an alternative to the wave of privatization, free trade agreements and structural adjustment policies.

As an alternative to the Free Trade Agreement of the Americas, Venezuela and Cuba signed into effect the Bolivarian Alternative for the Americas (ALBA) in 2004. Since then, they have been joined by Bolivia and Nicaragua, with Ecuador also indicating strong interest. The ALBA was set up specifically to be the alternative to the wave of privatization, free trade agreements and structural adjustment policies that had pushed Latin America into debt, as well as increasing inequality.[97]

The first declaration of ALBA between Cuba and Venezuela states that the founding principles of ALBA lay in "firm rejection of the content and goals of the FTAA" and

> *"that cardinal principle that should guide ALBA is the great solidarity among the people of Latin America and the Caribbean as upheld by Bolivar, Marti, etc"*.[98]

In ALBA, solidarity and cooperation is firmly rooted in matching countries' needs with the strengths and resources that others can offer. Numerous proposals have been put forward – a continental literacy plan; a Latin American plan for free health care; an education scholarship program; a Social Emergency Fund; a Development Bank of the South; a regional Petroleum company, Petroamerica; a regional television station, Telesur. Some proposals have already come to fruition. Telesur has celebrated its first birthday.[99]

96 Carlsen L 2006 "Latin America's Pink Tide", Foreign Policy in Focus, 15 December, www.fpif.org/fpiftxt/3806
97 Fox M 2006 "Defining the Bolivarian Alternative for the Americas – ALBA", 25 August, http://www.zmag.org/content/showarticle.cfm?ItemID=10830
98 Fox ibid.
99 Fox ibid.

In accordance with the health plan, Cuba, a regional leader in medicine, is sending Venezuela 15,000 doctors to assist in the construction of hundreds of new medical clinics in the country, as well as the training of Venezuelan doctors both on site and through scholarships to Cuban universities. Venezuela, in turn, will provide Cuba with discounted petroleum imports to the value of USD 1 billion annually. Both countries also launched "Operation Miracle", jointly offering free surgery for cataracts and other eye diseases to citizens of Latin America and the Caribbean. In 2005, Cuban doctors and hospitals performed more than 122,000 of these surgeries and Venezuela provided free air transport and accommodation to these patients. Venezuela and Cuba also agreed to purchase Bolivia's soy at "fair prices" when a US trade agreement with Colombia signed in May 2006 threatened to undercut Bolivia's soy exports. Colombia had been Bolivia's main importer of soya.[100]

In addition, Chavez is also extending financial assistance to others in the region to free themselves from the clutches of the IMF and of Washington – a situation that would not have been heard of some years back. Chavez has pledged $5 billion towards a "Bank for the South" for development financing. In the meantime, he has assisted Argentina in freeing itself of loans from the IMF (in December 2005); Ecuador in the buying of bonds; and oil financing for the Caribbean countries in a PetroCaribe program.[101]

In the meantime, Evo Morales has proposed an alternative model of trade enshrined in what his government has called the Trade Treaty of the Peoples (TCP). The slogan of the TCP is "Another Integration is Possible". The Box in Annex 1 contains excepts of the fundamental pillars of the TCP which the Bolivian government has made widely available:

Even as this pink wave is sweeping across South America, others on the continent are hanging on to free trade and neo-liberalism. Peru and Colombia are signing free trade agreements with the US. Where the scale in the region tips may depend on what happens in Mercosur (the regional trade agreement between Brazil, Argentina, Uruguay, Venezuela and Paraguay). One analyst observes that

> *"the showdown over the soul of Mercosur is still likely to come."*[102]

Even as this pink wave is sweeping across South America, others on the continent are hanging on to free trade and neo-liberalism. Where the scale in the region tips may depend on what happens in Mercosur.

Will the block move towards free market integration, or more ALBA-style integration? Chavez has been proclaiming his hopes for the transformation of the bloc.

> *"We need a Mercosur that prioritizes social concerns. We need a Mercosur that everyday moves farther away from the old elitist corporate models of integration that look for… financial profits, but forgets about workers, children, life, and human dignity."*[103]

Much will depend on Brazil, and whether the social movements in the region will have the strength to push Mercosur in this direction.

100 Harris D and Azzi D 2006 "Venezuela's Answer to "Free Trade": The Bolivarian Alternative for the Americas (ALBA), Focus on the Global South.
101 Weisbrot ibid.
102 Tockman J 2007 "Chavez, Morales Seek Transformation of Mercosur Trade Bloc", 21 January, Znet.
103 Tockman ibid.

d) Multilateral Trade Regulation

This section mainly tackles the WTO. However, the policy conclusions drawn apply as much to the other multilateral agencies that have promoted free trade – the World Bank and the IMF.

Systemic Flaws of the WTO

There are some fundamental systemic flows within the multilateral trading system that should be noted if we are to create a system that aims to serve its members:

- **No Evaluation and Feedback: Disconnected from Stated Objectives**

There has been no systematic assessment by the international community of the ways in which the multilateral trading system could be contributing to or harming people's welfare.

Any system which functions well and meets the needs of those it serves must have a built-in evaluation and feedback loop to ensure that it is keeping on-track with its stated objectives – in this case increasing the welfare of people and the goal of full employment. It is alarming that despite the repeated collapse of WTO ministerials (Seattle in 1999, Cancun in 2003) and the collapse of Doha Round negotiations in July 2006, there has been no systematic assessment by the international community of the ways in which the multilateral trading system could be contributing to or harming people's welfare.

Even as far back as 1999, before the launch of the Doha Round, and prior to the Seattle Ministerial Conference, UNCTAD had already said it its Trade and Development Report that the direction taken by the WTO needed rethinking.

> *"The predicted gains to developing countries from the Uruguay Round have proved to be exaggerated… Poverty and unemployment are again on the rise in developing countries which had struggled for many years to combat them. Income and welfare gaps between and within countries have widened further…It also raises important questions about the present approach to development issues. Asymmetries and biases in the global system against the poor and underprivileged persist unchecked".*

It is also alarming that the assessments warning probable losses by the poor have largely been ignored by the WTO secretariat, as well as the industrialized economies. Assessments prior to negotiations must be taken seriously and the system should grind to a halt if the welfare of those it claims to serve is being harmed.

- **Imposing Liberalization on Developing Countries**

Similarly, despite clear evidence of the failures of structural adjustment across the developing world, the system has not paused, but has continued to advocate the same straight jacket liberalization policies. Rules have been crafted such that developed countries have a broader range of policy instruments at their disposal within the system, for example, through technical standards or through the use of WTO "legal" subsidies, which developing countries have no financial or technological ability to utilize. As a result, developing countries are not allowed to experiment and "evolve", to learn their own mistakes, and to choose their own development paths.

Developing countries are not allowed to experiment and "evolve", to learn their own mistakes, and to choose their own development paths.

- **Trade-Offs Between Sectors**

In the course of trade liberalization negotiations, sectors are traded off one against one another, as if they were equal. In the current negotiations, for instance, the aim is to match "ambition" in agriculture by "ambition" in the non-agricultural market access negotiations. A cut of 54% in tariffs in agriculture, is targeted to be matched by a similar proportion cut in NAMA. Brazil, aggressive in agriculture and defensive in NAMA, trades its NAMA sectors off for cuts in agriculture. This strategy makes no sense since workers are not necessarily able to migrate smoothly from one sector to the other, nor does it make sense when a country is faced with very different challenges in both these sectors, and is seeking to build production capacity in both areas.

- **Developing Countries Marginalized**

A trade system must protect the integrity of developing countries' policy objectives by bolstering their power position within the system. Currently, few, if any, low-income countries have the staying power to maintain to the end a negotiating position that the major powers are in disagreement with. For many low-income countries, the short-term costs of infuriating the major powers are too high because of their dependence on aid or preferences. Instead of rebalancing the power equation, the WTO reinforces small countries' marginalized position by keeping them out of the negotiations. The critical negotiations take place only amongst the US, EU, Brazil and India, and sometimes also including Australia and Japan.

As a result of both their lack of political leverage and exclusion, there is little alignment between what the majority of developing countries need from the trading system, and what the system provides them. Invariably, these countries come out at the sharp end of the stick. An example is how the implementation and special and differential treatment issues seem to have dropped off the table in the Doha talks. The TRIPS and access to medicines negotiations is also an example, where a "solution" was agreed to in 2003, but one which no African country has yet managed to utilize.[104]

104 See Jawara F and Kwa A 2004, "Behind the Scenes at the WTO", as well as various publications by Medicines Sans Frontier.

6. A new multilateral trading regime[105]

A new multilateral trading regime would benefit from having the following characteristics and functions:

a) Unhinging from Trade Liberalization

The main thrust of multilateral trade rules would be to enforce countries' extra-territorial responsibilities.

There should be no more mandatory trade liberalization through any multilateral trade agency. Countries' tariff levels, as well as other domestic regulatory measures – subsidies, non-tariff barriers or preferences – should be an issue only for the country to decide. Alternatively, these can be issues dealt with within regional blocs. In any case, trade should primarily take place at the national and regional levels. Of course international trade will still continue, but hopefully at much lower volumes. The main thrust of multilateral trade rules would be to enforce countries' extra-territorial responsibilities. That is, the system will manage and regulate trade between countries such that the actions of one country do not impinge negatively on others.

The areas where there should be careful regulation of trade between nations include the following. This can be undertaken by a multilateral agency or probably more suitably, a multiplicity of multilateral bodies:

b) Multilateral Regulation to End Dumping

Given the impact of US and EU subsidized agricultural products on farmers' employment and livelihoods in the developing world, the secretariat of such a multilateral agency dealing with dumping should ensure that the imports into developing countries do not equate to dumping (exports at a price below the cost of production). Support by way of analyzing countries' data on subsidies and price distortions by multinational corporations will be necessary. The Secretariat will both alert the country being harmed as well as bring the country causing the dumping to task.

c) Regulating Corporations and Multilateral Competition Policy

Corporate power has to be scaled back drastically. The oligopsony[106] situation is characteristic of too many production chains – in agriculture and also in industry,

105 The author is grateful to the Eco-fair Trade Dialogue panel experts for enriching discussions within the panel which has contributed to some of the ideas in this section. For a report of the panel recommendations on re-envisioning agricultural trade, see Sachs W and Santarius, T 2007, "Slow Trade – Sound Farming: A Multilateral Framework for Sustainable Markets in Agriculture".

106 An oligopsony is a market form in which the number of buyers is small while the number of sellers is large. Eg. the cocoa production chain where three firms – Cargill, Archer Daniels Midland, and Callebaut buy the vast majority of world cocoa bean production, mostly from small farmers in developing countries.

leaving small players at the bottom of the production chain powerless. According to one source, farmers typically receive only half a percent of the final price of a product.[107]

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Other problems associated with corporate power include “flexibilisation” of labor, as well as the loss of employment; evasion of taxes and abuse of transfer pricing; depriving certain countries of needed taxes; cut and run tactics – relocating when labor costs and rights impose constraints; obsession with profits especially for publicly traded corporations – this can include rapid exploitation of human and environmental resources for quick profits; co-optation of governments and politicians so that state actors move away from protecting human rights towards the protection of corporate rights.

Cutting back corporate size, mandating transparency and limiting the markets within which they can operate can help to recalibrate prices in the market so that they more accurately reflect production costs; allow small producers at the bottom of the production chain to reclaim some power in the market place; and provide low income countries the space to develop their production capacities.

Cutting back corporate size, mandating transparency and limiting the markets within which they can operate can help to recalibrate prices in the market so that they more accurately reflect production costs.

So far, voluntary, corporate social responsibility campaigns and initiatives have not made much of a dent. For the large majority, corporations have simply greenwashed themselves. Even if these big companies are trying to comply with fair trade, social and environmental standards, the issue remains that they are the ones controlling factors of production, wielding market power and determining prices, and knocking smaller players out of the industry. Is, for example, a “fair trade” Walmart operating in India and closing down the businesses of thousands of entrepreneurs an ideal scenario?

More meaningful strategies to deal with corporate control of the economy must include regulating corporate behavior at the international level through measures such as the following:

• **Imposing a maximum market share above which companies cannot go beyond.** This will mean breaking up the giant corporations of today.[108] This can be legislated at the national/regional and international levels to safeguard against oligopolistic behaviour, abuse of dominant power and control or distortion of prices. The point here is to allow small and medium sized players to also have access to markets, as well as the establishment of fair prices. The exact size of corporations can vary depending on the local context and in accordance to the needs for a particular sector.

The European Commission, for example, defines small and medium businesses as those with 250 employees, with annual sales under $35 million and with total assets under $24 million. (In contrast, the assets of the top 500 companies are in the billions).[109] For most developing countries, this would probably be much too big. Where the mark is drawn would logically depend on the local conditions.

107 Robbins P 2005 “Supply-side Measures for Raising Low Farm-Gate Prices of Tropical Beverage Commodities”, South Centre, November.
108 See Lines T 2006 ibid.
109 International Forum on Globalization 2002 “Alternatives to Economic Globalization: A Better World is Possible”.

• **Bringing corporations home.** Various analysts have proposed produce-and-sell-on-site conditionalities for companies. These rules can be implemented both at the local, national, but also regional levels. Sending goods from one region to another will continue, but should be brought to an absolute minimum. There should be further discussion within the international community to clarify the criteria by which cross-regional trade can and cannot take place.

• **Transparency.** There must be full disclosure of prices, contracts and production chains. This is all the more important when governments are breaking up corporations. Transparency would be required to ensure that corporations do not simply break up into smaller subsidiaries.

• **Strictly regulating the behavior of corporations.** There should be legally enforceable laws for protecting workers, the environment and public interests (eg. price ceilings). Within the context of breaking up corporations, some of the proposals on corporate social responsibility could be implemented, for instance, ensuring that certain fair trade standards such as minimum prices to producers are used.

d) Commodity Agreements for Tropical Products

The impact of volatile prices has been catastrophic on communities and has caused rural-urban migration, the desperate attempts to migrate to the developed world, even violence and civil strife.

The trading system at this point remains completely unresponsive to the declining terms of trade that low-income commodity-dependent countries face, as well as the volatility of commodity prices and their inability to control these prices. The impact of volatile prices has been catastrophic on communities and has caused rural-urban migration, the desperate attempts to migrate to the developed world, even violence and civil strife.

Indeed, whilst in the ideal, most trade will be conducted nationally and within regions, trade in commodities – for example, coffee, tea, cocoa etc – will continue across regions given that these are tropical crops.

What would such ICAs look like? ICAs are supply management instruments at the international level. They would essentially manage prices and production quantities. There would have to be a floor and ceiling price range and this range would be regularly reviewed. Also, participating countries would provide some resources (which could be collected in the form of an export tax) so that the commodity group can weather any price shocks and defend the floor price.[110] All producing countries would participate. An example of this at work is the

De Beers diamond cartel. Production will have to be controlled by some kind of quota system. For commodities where supply outstrips demand, leading to low prices, countries could cut back on production quantities by a common percentage down from their current quantities. The fall in production will stimulate higher prices for producers. (For a more detailed examination of how commodity agreements can be put into effect, avoiding the mistakes of the old commodity agreements, see Robbins P, 2005).

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110 Raffaelli M 1995 “Rise and Demise of Commodity Agreements”, cited in Robbins P ibid.

Indeed, these new agreements would also have to avoid the weaknesses of the old, collapsed commodity agreements. Some of these problems included:

- Over reliance on the cooperation of consuming countries[111]
- Control was exercised over exports of commodities, not supply
- Only governments were party to these agreements
- Difficulties for low-cost producers to get an increase on their quota.[112]

There are many technical difficulties of course – how can quotas be distributed, both at the international level, but also at the national level? How will prices be set? What about those countries that might simply want to free-ride the system and take advantage of higher prices without being bound to production quotas?

Indeed, these are tremendous challenges, but as commodities expert Peter Robbins asserts, at the end of the day,

> *"although there would be considerable technical difficulties in constructing measures to address the problem, the most formidable obstacles are, in essence, political".*[113]

If producer countries have the political will to work together, and provide the resources needed (through receiving higher prices) they can have leverage over the market, which is currently tightly controlled by the transnational corporations. The motivating factor is that if all producing parties cooperate, supply levels can be lower and prices higher. It would be a win-win solution for producers.

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The kind of commodity agreement will be different in shape and form depending on the commodity in question, the number of producers, and extent of political unity and alliance amongst producer countries.

e) Supply Management – National and International

It is not only supplies at the level of exports that should be regulated, as in commodity agreements. For best results, production within a country should also be regulated and controlled. Currently, Canada boasts one of the most successful supply management programmes. The government issues quota licenses to producers, stipulating the quantity which they can produce. Prices generally tend to be very stable because supply and demand have been predetermined. Of course, it also requires imports to be very carefully regulated. In the dairy industry, prices for producers have been higher than the prices US producers receive. Through these licenses, the government can also control the size of farm holdings

111 Robbins who was a commodities trader for 30 years recounts that the consuming countries were never enthusiastic about the International Commodity Agreements (ICAs) of the past. US, for example, was not even a participant in the cocoa agreement, but managed to modify the agreement to its favour. The consuming countries made the greatest contributions to financing surplus stocks in periods of overproduction. Hence they were in a powerful position when these agreements were renegotiated. Robbins relates that the lifetime of the ICAs were characterized by arguments between producing and consuming countries over quota shares, stock and finance contributions, and the floor and ceiling prices (Robbins 2005).
112 Robbins P 2005 ibid.
113 Robbins P 2005 ibid.

(so that the market is not concentrated). The quota system and guaranteed stable income has facilitated the entry of young farmers into the agricultural sector.

Supply management regulating prices and organizing producers also increases the power of small producers and reduces the influence, even the monopoly of the market by big processors and retailers.

Supply management regulating prices and organizing producers also increases the power of small producers and reduces the influence, even the monopoly of the market by big processors and retailers. The Indian diary industry is an example, where cooperatives have taken over the entire production chain, including the processing. Small producers with 1-2 cows are able to bring their milk to the milk collection centers and get paid for their produce.

Supply management in key agricultural products such as cereals between the main agricultural exporting countries is also a necessary tool which the multilateral trade system should assist in managing. There are only a handful of countries which are producing in large quantities for the world market – US, EU, Australia, Brazil, Argentina and New Zealand. If these countries were willing to work together and accept quotas to limit their production, they would be the main beneficiaries since world prices would increase (even further). But the rest of the world would benefit too. The countries currently exporting would not be dumping or even exporting cereals – wheat, rice, soya - into developing countries, allowing for developing country farmers to enjoy access to their own domestic markets, and the possibility of having a decent living wage.

f) Intellectual Property (IP)

Intellectual property is the currency of commerce, or put another way, IP is the tool by which companies stake their claim on knowledge and technology in a monopolistic manner, ensuring that they remain at the top of the innovation ladder and hence securing lasting financial benefits for themselves.

Many have concluded that the balance between incentives and social benefits has erred too far on the side of property rights holders at the expense of public interests.

IP rules have been justified on the grounds that there is need to provide incentives for innovation. However, thus far, many have concluded that the balance between incentives and social benefits has erred too far on the side of property rights holders at the expense of public interests.

In the area of medicines, the high prices for new medicines resulting from the mandatory patent protection under TRIPS in developing countries, have seriously compromised the ability of communities, governments, and other players in the health sector to effectively manage infectious and other diseases.[114]

As a result of strong intellectual property laws, IP lawyer Sisule Musungu notes that their impact such as high drug prices and inaccessible medicines gives a hollow ring to international and regional human rights instruments and constitutions, such as that of South Africa, containing commitments to transform society into one based on human dignity.[115]

114 Musungu S 2006 "The Right to Health, IP, and Competition" in Human Rights and International Trade p. 306-7.
115 Musungu 2006 ibid.

The failure of the patent system is clear in the health sector. There is a 10/90 gap – developed countries which represent 90% of the global pharmaceutical sales, account for only 10% of the 14 million plus global deaths that occur annually due to infectious diseases. Conversely, developing countries representing 90% of the 14 million deaths only account for 10% of the global pharmaceutical sales. There are twin challenges here. One, even when medicines are on the market, developing countries do not have access because of their high prices. The other problem is that IP has not been the best mechanism to stimulate innovation, especially for medicines related to diseases that predominantly affect developing countries. Of the 1,400 new products developed by the pharmaceutical industry and public labs between 1975 and 1999, only 13 were for tropical diseases and three were for tuberculosis.

Conversely, developing countries representing 90% of the 14 million deaths only account for 10% of the global pharmaceutical sales.

It should also be noted that the TRIPS and particularly the TRIPS-plus standards imposed by US and EU, often go beyond the intellectual property standards of these very countries! The free trade agreements (FTAs) of the US often lay down stringent rules on intellectual property. However, unknown to their developing country negotiating partners, US domestic legislation provides many exceptions to these rules. According to law professor Frederick Abbott,

> *"The United States already has in place a sophisticated system of checks and balances to offset the general intellectual property and regulatory standards which are reflected in the FTAs"*.

He notes that historically, US law has reflected a careful balance between the interests of intellectual property rights holders and the general public. Although the balance has shifted in the past two decades in favour of IPR holders, the law nevertheless reflects a balance. Some of this is codified in legislation and regulation, and some arises out of court interpretation. In contrast, most developing countries do not have such checks and balances in place.[116]

Abbott underscores the dangers,

> *"The critical lesson for developing countries accepting IPRs commitments in FTAs with the United States is that US IPR law is replete with exceptions to the general rules, in many cases elaborated in considerable detail. If developing countries accept obligations in the FTAs, they must also be prepared to implement a significant level of exceptions so as to create a reasonable balance within their own law. If they do not implement these exceptions, they will find themselves not only with TRIPS-plus levels of IPRs protection, but also with US-plus levels of IPRs protection."*[117]

Developing countries face a number of problems. Firstly, since they tend to be the end-users of innovation, rather than the producers, the "balance" reflected in US law and pushed upon them through trade agreements does not fit with their development needs. Whilst LDCs have been given a grace period before imple-

116 Abbott F 2006 "Intellectual Property Provisions of Bilateral and Regional Trade Agreements in Light of U.S. Federal Law", ICTSD, January.
117 Abbott 2006 ibid.

LDCs and other low-income countries are frequently told that intellectual property should be respected if they want foreign investors to come to their countries.

menting TRIPS of up to 2012, it is difficult to get away from the "universal" baseline TRIPS creates. LDCs and other low-income countries are frequently told that intellectual property should be respected if they want foreign investors to come to their countries. Their exports to developed countries could also be affected if these exports contain copied technology or material that is patented in the recipient country.

TRIPS or TRIPS-plus rules also uphold individual rights to knowledge that is antithetical to the customs of many African countries, where such knowledge is not typically owned by individuals, but is shared freely within and amongst communities. At the same time, these communities have been victims of "biopiracy" - where their traditional knowledge has been taken and patented elsewhere for profits, without prior consent or benefit sharing. The African Modal Law, adopted in 2001 by African governments for the region, underscores community rights and farmers' rights, upholds a clear "no patents on life" position, and cannot be more contrasting to the culture of individualism and competition enshrined in TRIPS and other TRIPS-plus regimes.

How can the international community deal with intellectual property, so that countries can be helped to develop and meet the basic human rights of their citizens to health, education, food, and economic development, whilst not discouraging new inventions and also ensuring that their knowledge is not exploited?

• Change the Discourse: "Intellectually-Based Monopoly Privileges".
Firstly, there is need to change the discourse. By calling intellectual property a *right,* we have inadvertently raised its status to the equivalent of other human rights, creating unnecessary confusion.

Indeed, Article 15 of the International Convention on Economic, Social and Cultural Rights (ICESCR) underlines

> *"the right of everyone to take part in the cultural life, to enjoy the benefits of scientific progress and its application as well as to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author"*.

Intellectual property on the other hand, can be allocated, limited in time and scope, traded, amended and even forfeited. IP "rights" are therefore not the same as human rights.

However, the moral interests of an author do not necessarily coincide with what is termed intellectual property rights under current national legislation and international agreements. Intellectual property regimes could be one way to protect these rights, but it is not necessarily the only way.[118]

The Committee on Economic, Social and Cultural Rights has also clarified the distinction between IP and human rights. Human rights, they underline, are timeless expressions of fundamental entitlements of the human person. Intellectual property on the other hand, can be allocated, limited in time and scope, traded, amended and even forfeited. IP "rights" are therefore not the same as human rights.[119]

118 Musungu S 2006 ibid.
119 3D Trade Human Rights Equitable Economy 2006 "Intellectual Property and Human Rights: Is the Distinction Clear Now? An Assessment of the Committee on Economic, Social and Cultural Rights' General Comment No. 17 (2005), Policy Brief 3, October.

Analysts such as Peter Drahos and Geoff Tansey have suggested replacing property rights with "the language of monopoly rights" – that we should instead talk about "intellectually-based monopoly privileges" (IMPs) in order to more accurately reflect what they are.[120] This change in language would help restructure the debate about the kind of system we want, whom we want to benefit, and the range of things we want covered (or not covered).

• Towards Open Source Access to Knowledge

There is much to be said about the non-existence of IP laws in many developed countries, until they had reached the top of the industrialisation ladder, to support developing countries in freeing themselves from such regimes today. In addition, some have pointed to the poor implementation of IP rules in China as an example of how copying of technology is critical for a country's development. The other very compelling argument is that we are hindering the speed of innovation, and increasing research costs, by maintaining our knowledge monopolies. According to one CEO of a processing company at the 2007 Davos World Economic Forum,

> *"I would have shot my researchers in my company if they were talking about our ideas outside the company but I think a 12-year research project that we conducted could have been done in half the time and at half the cost [if there was such public collaboration]".*[121]

In time, with the increasing sophistication of the internet and other information technology easing the spread of information, maintaining a monopoly over knowledge may even be a completely outmoded concept.

The trend now gaining some traction is open source information and the sharing of technology. There are already some best practices, for instance, the Linux model – the computer operating system which is completely in the public domain. It has been very successful.

In Brazil, the Center for Technology and Society (CTS) in Fundacao Getulio Vargas (FGV) Law School in Rio, is trying several innovative open source projects. One such initiative is the Creative Commons model, where licenses are provided to open source creators. Material may be distributed freely, with only a few restrictions such as not making changes to texts; properly citing authors; not using material for commercial purposes. Another project Open Business, is a joint initiative with entities in South Africa and the United Kingdom. They are mapping and studying the potential business model in which content or services are provided in a free and open fashion.[122]

Rather than imposing strong monopoly rules locking countries out of access to knowledge, open source is the model that can definitely assist the developing world up the industrialisation ladder.

Rather than imposing strong monopoly rules locking countries out of access to knowledge, open source is the model that can definitely assist the developing world up the industrialisation ladder.

120 Tansey G 2006 "Global Rules, Patent Power and Our Food Future: Controlling the Food System in the 21st Century", IIIS Discussion Paper No. 130 / April.

121 Thornhill J 2007 "Letting Go of Intellectual Property Rights", Financial Times, 27 January.

122 New W 2006 "Centre Highlights Brazil's Leadership in IP, Free / Open Source Issues", in Intellectual Property Watch, Vol. 3, No. 6, June.

• Promoting Public and Collaborative Research

The other strategy for reclaiming knowledge is to bring it back to the public domain, by encouraging publicly funded research, and even better, research that is done collaboratively between countries. An example is the European Organisation for Nuclear Research (CERN), where research is conducted on a cooperative basis between countries. Funding, personnel and technology are shared. Publicly funded research can also be much more easily directed towards societal needs eg. drugs for diseases to stem epidemics that only occur amongst the poor, where private companies are not interested in investing.

• National Sovereignty, Multilateral Regulation.

Each country should decide for itself how it would like to deal with access to knowledge and the balance it wants to strike, according to its level of industrialisation and development. It is not the task of a multilateral agency to stipulate uniform IP rules that all countries must adapt to.

The exact balance a country decides upon will differ across countries, and is likely to also be different across sectors. There is a strong movement towards having weak or no monopoly privileges in the agriculture arena. Stringent IP rules have led to corporations monopolising the very sources of life. In health, the balance could be slightly different – but here again, it will differ according to the level of development of a country. It does not benefit low-income countries, which are consumers, to have stringent monopoly privileges at the expense of public health. However, these questions and the right balance will have to be decided nationally.

The issues that have to be dealt with include access, benefit-sharing, consent and disclosure of source.

Since the spread of information is transboundary in nature, national customs and regimes should be supplemented by some form of multilateral regulation. The issues that have to be dealt with include access, benefit-sharing, consent and disclosure of source. These are complex questions requiring more debate. Should the same level of benefits be provided to indigenous communities as to a corporation? What is the criteria that can be used for making these decisions? Again, reference to human rights and equity can provide valuable frames to ascertain where the right "balance" can be struck.

The following is an adaptation of a list of useful questions which Sisule Musungu has provided when rethinking the regulation of access to knowledge and innovation:

- Whether the system or proposed mechanism ensures that innovation and research and development (R&D) priorities are based on health, food and other development needs
- Whether the IP or other proposed mechanism ensures sustainable investments in R&D in areas that are of the greatest priority
- Whether the system can adequately ensure access to quality medicines at affordable prices; technology for industrialization for poor countries; the preservation of biodiversity; the rights of communities over their food system; access to seeds and food security

- Whether the system is consistent with human rights obligations, particularly the obligations relating to the right to health, food, education and development.
- Whether the IP or other mechanism has a long term view regarding the nature, costs, and distribution of medical knowledge and technology. (If every time we are faced with a major health crisis, and we have to invest the same amount of energy and resources as expanded on getting HIV treatments accessible, there is an enormous and long term problem).
- Whether the IP or other proposed mechanism fairly allocates the burdens of covering innovation costs between countries and within countries. There is need to fashion a system that ensures that multilateral rules and other related international patent rules reflect the profound factual differences between and within countries. Each country needs to do its fair share in contributing to paying for innovation and R&D, whilst making sure that the costs are fairly allocated amongst different players.

7. Conclusion

The malaise of our time is the tendency to tinker with the system, hoping that things will improve.

The multilateral trading system is in urgent need of radical change. Maintaining status quo will consign low-income countries to further deindustrialisation, inequitable growth and poverty. The malaise of our time is the tendency to tinker with the system, hoping that things will improve. The WTO is constantly engaged in such exercises – through superficial and reluctant routines of special and differential treatment negotiations (if even), aid for trade, or whatever the trend of the day may be. These half-hearted attempts at change lull the majority into complacency, and appease people's conscience, even as the real work continues – opening up yet more developing country markets to satisfy the insatiable appetites of the giant corporations.

The time to change is now and the challenge needs to be met by all of us working at all levels – from civil society actors to governments, in the north, and the south. It is a political agenda, and for those closest to the trade negotiations, it is also a personally challenging one, since it means daring to act and speak, and facing the consequences that could bring.

This change can be accomplishedsing by using our joint creativity to invent solutions that can advance the dignity of all.

However, this change can be accomplished by harnessing the energies of people to reaffirm life, integrity and human dignity; conveying to the proponents of the current system a firm yet respectful 'No' to its destructiveness; and using our joint creativity to invent solutions that can advance the dignity of all.[123]

123 An inspiring story about working with others across political linesis one told by Nelson Mandela when he recalls his first television debate with then President de Klerk prior to the first democratic election in South Africa. *"As the debate war nearing an end, I felt I had been too harsh with the man who would be my partner in a government of national unity".* So in making his summation, Mandala reached out his opponent and said straight to the cameras, *"the exchanges between Mr. de Klerk and me should not obscure one important fact. I think we are a shinning example to the entire world of people drawn from different racial groups who have a common loyalty, a common love, to their common country…In spite of my criticism of Mr. de KLerk",* Mandela said, turning to look directly at de Klerk, *"sir, you are one of those I rely upon. We are going to face the problems of this country together."* Mandela then reached over to take de Klerk's hand and said, *I am proud to hold your hand for us to go forward"* (Story retold in William Ury 2007 "The Power of a Positive no: How to Say NO and Still Get to Yes").

Annex 1

Annex 1: **Trade Treaty of the Peoples (TCP)-Bolivia's Alternative to Free Trade Agreements**

What is TCP and What is it Trying to Do?

In contrast to capitalist ideology, TCP brings into the debate on trade integration principles of complementarity, cooperation, solidarity, reciprocity, prosperity and respect for countries' sovereignty. In this way it incorporates aims that are absent in programmes of trade integration proposed by the North, such as the effective reduction of poverty, the preservation of indigenous communities and respect for the environment.

TCP understands trade and investment not as ends in themselves but as means towards development. Consequently its aim is not total liberalization of markets and the shrinking of States but rather benefiting all peoples. That is to say, the strengthening of small producers, micro-industries, cooperatives and community-based companies facilitating their exchanges of goods with external markets.

TCP wants to build the State, not destroy it

Trade integration promoted by dominant countries puts "market freedom" above regulatory functions of the State, and denies the weakest countries the right to protect its productive sectors. Free Trade Agreements are like a "padlock" that prevents an exit from neo-liberalism or the taking of sovereign measures such as the nationalization of hydrocarbons. One of the clauses of the FTAA and other Free Trade Agreements says that conflicts between States and Companies have to be resolved in international tribunals whose jurisdiction is above national States.

Based on national interests, the proposal for a TCP promotes a model of trade integration between peoples that limits and regulates the rights of foreign investors and multinationals so that they serve the purpose of national productive development. Partners and not masters, as President Evo Morales have signaled. As a result, part of this proposal aims to give incentives to agreements between public companies of different countries in order to strengthen each other.

TCP does not prohibit the use of mechanisms to promote industrialization nor does it prevent the protection of areas of the internal market that are necessary in order to preserve the most vulnerable sectors of society. If FTAs imply the death of the countryside as a result of being put up against subsidized products from the North, TCP promotes the defence of economies of small-scale farmers and food sovereignty of our countries.

TCP recognizes the right of peoples to define their own agricultural and food policies; to protect and regulate national agricultural production to prevent the flooding of domestic markets by other countries' excess products; and to privilege the collective good above the rights of agro-industries by controlling and regulating imports.

At the same time, TPC considers that essential services should be exclusively provided by public companies regulated by the State. The negotiation of any trade treaty must always put at the forefront the principle that the majority of basic services are public goods that can not be handed over to the market. For that reason in the Fourth World Water Forum in Mexico, the Bolivian delegation defended access to water as a human right and not a commodity.

TCP promotes an indigenous vision of development
… TCP questions the sustainability of the theory of "economic growth" and the culture of waste of the West which measures the economic development of a country based on the capacity to consume…

(Based on) the premises of indigenous culture, TCP promotes complementarity instead of competition; co-existence with nature against irrational exploitation of resources; defense of social property against extreme privatization; promotion of cultural diversity against mono-culturalism and the uniformity of the market which homogenizes consumers' habits.

TCP defends national production
…TCP therefore urges all participating countries committed to a process of integration based on solidarity to give priority to national companies as sole providers of public entities. It is important to remember that in the majority of countries, despite their virtual dismantling in recent years, national States continue to be the principle buyer of goods and services. Independent of its agreements, the Bolivian proposal will establish a list of priority providers, especially those from ethnic groups, cooperatives and community-based companies in order to avoid ruinous and impossible competition with powerful multinationals.

Source: Government of Bolivia, 2006

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Abbreviations

ACP	African, Caribbean and Pacific Countries
ALBA	Bolivarian Alternative for the Americas
CEO	Chief Executive Officer
CERN	European Organization for Nuclear Research
CTS	Center for Technology and Society
EG	Economic Growth
EPA	Economic Partnership Agreement
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGV	Fundacao Getulio Vargas
FTA	Free Trade Agreements
FTAA	Free Trade Area of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HD	Human Development
ICA	International Commodity Agreements
ICESCR	International Convention on Economic, Social and Cultural Rights
ILO	International Labour Organization
IMF	International Monetary Fund
IMP	Intellectually-based Monopoly Privileges
IP	Intellectual Property
LDC	Least Developed Country
MVA	Manufactured Value Added
NAFTA	North American Free Trade Agreement
NAMA	Non-Agriculture Market Access
NEPAD	New Partenrship for Africa's Development
R&D	Research and Development
SIA	Sustainability Impact Assessment
SingTel	Singapore Telecom
SP	Special Products
STE	State trading enterprises
TCP	Trade Treaty of the Peoples
TNC	Trans National Corporation
TRIMs	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property Rights
UDHR	Universal Declaration on Human Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USTR	United States Trade Representative
WTO	World Trade Organization

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