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The World Trade Organisation after Cancún

Can the South hold onto its new power?

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The failed WTO Ministerial Conference in Cancún could prove to be a watershed for the global trade system. After this debacle, the WTO faces an uncertain future. The United States are unabashedly pointing out the alternatives, in particular bilateral free trade agreements. If a plethora of new free trade zones is set up in addition to the bilateral agreements already in place, the global economy threatens to disintegrate into an array of rival blocs and trade-policy chaos. It is doubtful whether the new power demonstrated by the South in Cancún can be stabilised in the long run and constructively applied to re-define the global economy. If this is not achieved, precisely the poorest nations will be the losers.

The abrupt end of the conference in the Mexican seaside resort of Cancún took many by surprise: the South was amazed by its new-found blocking powers, EU Trade Commissioner Pascal Lamy scorned the WTO as a mediaeval organisation, and U.S. trade representative Robert Zoellick openly threatened to undermine it through further bilateral free trade arrangements. Other observers were astonished, having secretly been expecting a last-minute reconciliation.

However, the auguries had been unfavourable all along: following the failed attempt to get a new round of negotiations going in Seattle, the Doha conference in late 2001 was associated with great expectations. This time more attention was to be paid to the South, to the developing countries. Without doubt, two factors played a major role at the beginning of the Doha round. Firstly, the United States enjoyed a high level of solidarity in many countries in the wake of September 11. Secondly, there was widespread consensus in the capitals of many industrialised nations that international terrorism could best be combated by relieving poverty in the poorer countries.

Protectionism in the United States

By September 2003 these positive signs had vanished into thin air. Within a remarkably short time, President Bush has managed to annoy important allies and confront them with serious challenges, both with his security and his trade policy. Just a few months after the opening of the Doha round, the United States launched a myriad of protectionist measures. It started with a tariff on steel imports, against which a large coalition of WTO members lodged protests. The countries that filed formal complaints to the WTO in Geneva ranged from Brazil to China, from the EU to Japan. In the spring of 2002 the United States imposed a 30% protective tariff on timber from its NAFTA partner Canada, although Canada had already won NAFTA arbitration proceedings against the United States regarding this issue on two previous occasions. And finally, President Bush astounded the world with his "Farm Act," that assured American farmers of additional subsidies amounting to a fabulous sum of 180 billion dollars within ten years. This total is equal to the amount of all development aid granted world-wide in three-and-a-half years.

While the EU has recently taken steps towards a significant reduction of farm subsidies and has cut back export subsidies from a sizeable 10 billion euro per year to 2 billion, the United States have been constructing new obstacles to agricultural trade.

Globalisation at the focus of criticism

An attempt to discern the motives for the developing countries' obstructionism should not overlook the fact that several major countries, now organised in the G 21, have been hit by severe financial crises in recent years. This is true above all for Brazil and Argentina, but also for South Africa, which was shaken by a massive depreciation of its currency in the second half of 2001. These countries were now able to vent their anger at the North's indifference to the South's economic struggles in Cancún. The developing and newly industrialising countries refused to co-operate at the conference not because of some controversial details; their criticism goes much deeper. The whole concept of globalisation as propagated by the North is at stake.

For many in the South, the OECD countries' farm subsidies of over 300 billion dollars per year are an ongoing scandal. The policy of the OECD countries becomes even less comprehensible at the sectoral level. For example, the United States subsidise each of the country' s 25,000 cotton farmers with 156,000 dollars per year. By contrast, they spend only 2.5 dollars per capita per year on development aid for 500 million Africans. In the case of the EU and Japan, the situation is only slightly, but not fundamentally different.

Cancún also showed quite clearly that the World Trade Organisation has changed significantly since China's joining. China has experienced a spectacular economic boom since 1979. The Asian crisis gave the country for the first time the opportunity to prove itself as a leading power by stopping the crisis in East Asia through a policy of not devaluing the yuan and successfully boosting domestic demand. Since late last year, China has been negotiating with the South-East Asian countries of the ASEAN group on setting up a bilateral free trade zone, a project that would have been hardly conceivable just a few years ago. China is becoming a more and more important trading partner for the other countries of the region. Beijing is setting a good example especially in the sensitive sector of agricultural trade: bilateral trading in farm products between Thailand and China is to be fully liberalised by October 2003.

Four alternative scenarios

1. *Cancún as a singular act of solidarity among the developing countries:* the developing and newly industrialising countries are unable to keep up the dynamic of Cancún and can be persuaded to return to the negotiating table by co-ordinated initiatives by the EU and the USA in the coming months. In this scenario, Cancún would simply be a signal already familiar from earlier GATT talks: the difficulties in Cancún serve to remind the signatories that reaching agreement on new steps towards liberalisation is only possible if all participants are ready to make

The Group of 21 (G 21)

Argentina	India
Bolivia	Mexico
Brazil	Nigeria
Chile	Pakistan
China	Paraguay
Columbia	Peru
Costa Rica	Philippines
Cuba	South Africa
Ecuador	Thailand
Egypt	Venezuela
Guatemala	

concessions. The industrialised nations make some, but rather insignificant concessions in the liberalisation of agricultural trade and in other sectors of importance to developing countries. The WTO continues its business as usual. The South achieves no breakthrough in re-shaping the global trade system, but instead has to be satisfied with cosmetic improvements.

2. *A resolute return to multilateralism and the re-definition of globalisation:* all WTO member countries recognise the importance of multilateralism and return to the negotiating table with a new spirit of co-operation. The interests of the developing and newly industrialising countries are taken into consideration much more seriously than in the past. The EU, the United States, and Japan thoroughly revise their – in some sectors – protectionist policies. The major players stop undermining the WTO through bilateralism and unreservedly accept the decisions of arbitration proceedings.

3. *Asymmetric trade relations and the predominance of bilateralism:* The Doha Agenda fails and can not be completed even in the medium term. The WTO becomes meaningless and is no longer the central institution for regulating international trade. It is replaced by a network of bilateral free trade zones. The United States, the EU and, increasingly, China and Japan endeavour to bind other countries through bilateral agreements. Disputes are settled mainly at the bilateral level, and there is no longer a clearly-defined set of arbitration rules.

4. *The emergence of trade blocs:* The developing and newly industrialising countries consolidate their co-operation within the framework of the Group of 21 and form a trade bloc of their own. China, South Africa and Brazil are the principal players. The global economy breaks down into in three large blocs – the EU, the US-dominated NAFTA, and the South bloc –, between which confrontation is considerable. Countries such as Japan or Australia are forced to join one bloc or another. Protectionism increases, the globalisation project has failed.

Which trade regime?

But which of these scenarios is plausible? The first two are characterised by a more or less strong return to multilateralism in trade policy, the other two by the collapse of the multilateral system.

The most unrealistic would appear to be the second scenario. Against the backdrop of increasing protectionism in recent years, it is unlikely that a large coalition will form up to strengthen the multilateral regime. Governments would have to be willing to open up sensitive sectors of their own economies to new competitive pressures. Free trade would have to regain credibility as a paradigm of economic policy.

The first scenario is more probable. It is conceivable that a combination of concessions by the North and the threat of setting up bilateral free trade zones could have the effect of weakening the South's determination to continue its blockade. In this case, Cancún would not have changed anything, but the WTO's decline into insignificance could have been halted.

The third scenario is presumably just as likely as the first, but also the most treacherous from the viewpoint of the developing countries and from a trade-policy perspective. Under the rhetorical disguise of trade liberalisation, hierarchies would be consolidated. Bilateral free trade zones ought to be termed "preferential trade agreements." Non-participants are discriminated against. Trade is unnecessarily complicated by certificates of origin, which are unavoidable in free trade zones. The poorest countries with the least effective administrations would suffer most. And the law of the jungle would apply: the WTO is not responsible for settling disputes within free trade zones. In the event of a conflict, it is hardly to be expected that for example the United States would take into account the interests of a developing country.

This assessment is supported by a closer look at the bilateral agreements already ratified. In the free trade zone between Chile and the United States, the American side insisted on a ban regarding restrictions on capital movement. Against the backdrop of Chile's highly positive experience with restrictions on the inflow of foreign capital in the 1990s, this is a very selfish demand. But Chile had no real choice: either it accepted the U.S. dictum, or the elements of the agreements that benefited Chile would not have come into force.

The fourth scenario can not be ruled out in the medium term but does not appear very likely from today's perspective. Only if China, Brazil and South Africa sustainably support the G 21 and together take on leadership responsibility does this project have a future. On the other hand, the importance of these three countries should not be underestimated. All three are in a position to exercise a formative influence in their respective regions and to organise regional coalitions. This applies to Brazil and Mercosur, to South Africa and the SADC countries in southern Africa, and to China and the South-East Asian countries. It is unclear, however, whether the countries organised in the G 21 will prove capable of expressing their interests in consensus and defending those interests in the face of opposition from the EU and the United States.

Such a project might have a certain attraction for the South, but for the world trade system as a whole a global economy dominated by three blocs would be just as devastating as the third scenario of a bilateralist trade policy.

The exuberant dances performed by some representatives of non-governmental organisations on the beaches of Cancún appear naïve and silly against the background just outlined. After Cancún, there is even more reason than before to question the legitimacy of players who display little or no understanding of how a multilateral trade system is supposed to work. Obviously, some NGO representatives have developed a mindset that sees political processes only in a framework of campaigns, without properly thinking through their consequences.

All in all, the prospects are not encouraging. A look back in history shows that there are parallels to the current situation. As in the 1990s, liberalisation and deregulation were advocated in the 1920s: a multilateral organisation, the League of Nations, campaigned for freer world trade. The lofty ideal did not last long: the 1930s already saw the isolation of the national economies and the formation of regional blocs. At that time, too, the USA propagated bilateral agreements. Between 1934 and 1940 they concluded 22 trading arrangements with other countries, Germany had signed 25 bilateral pacts by 1938. It is to be feared that many decision-makers today are no longer adequately aware of how important a multilateral trade system really is.

How is the EU responding?

Foreign Trade Commissioner Lamy has not launched any new free trade projects between the EU and non-European countries within the last three years. After Cancún, this policy has to be put to test. Should the EU in the future focus more on setting up bilateral free trade zones? Presumably, it only has a choice between two evils: Should it knowingly undermine the WTO and go for bilateralism? Or would it be wiser to place its bets on the WTO alone and wait and see how Washington organises its own foreign trade around and without the WTO?

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