



## WTO and Developing Countries

By Aileen Kwa, Focus on the Global South

Crafting the declaration for the 3rd WTO Ministerial Conference in Seattle was a contentious process. The industrialized countries proposed the inclusion of a host of new issues (in addition to the mandated talks about services and agriculture) for negotiations in Seattle and beyond. Their suggested WTO agenda reflected their desire to gain even greater access to markets in the developing world. But they demonstrated no interest in ensuring that the most pressing concerns of developing countries—i.e., a review and repair of imbalances arising from past agreements—would be addressed before the WTO launches any discussion to expand economic liberalization.

The August 1999 Trade and Development Report bolsters the contention by developing countries that the Uruguay Round (UR) agreements harmed more than helped their economies. Published by the UN Council on Trade and Development (UNCTAD), the report's preamble states: "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.... Income and welfare gaps between and within countries have widened further." The UNCTAD report cites two primary reasons why developing countries want to create some balance in the implementation of the UR agreements:

These agreements have done little to improve market access for developing country exports of goods and services.

WTO rules are unbalanced in several important development-related areas, such as protection of intellectual property rights and the use of industrial subsidies, while the

"special and differential" treatment that the agreements promised has been inadequate.

Unfortunately, the promises that recent trade liberalization measures would benefit developing countries have not been realized. The increase in imports and the continued decline in their terms of trade mean that growth in developing countries is now associated with higher current-account deficits. GATT/WTO trade rules and the structural adjustment programs imposed by the

IMF and World Bank have obligated developing country governments to adopt liberalization policies—with disastrous results. Food imports have surged; many economic sectors have been deindustrialized; and contrary to IMF/World Bank/WTO predictions, the majority of developing countries have not been able to increase their export revenues.

In the Uruguay Round, developing countries signed on to proposals advanced by industrialized nations in return for certain concessions in market access and special treatment. There is widespread conviction among developing countries that the UR agreements were a bad deal because of the imbalance in the rules as well as the failure of developed countries to implement special treatment and market access rules.

By insisting that the WTO first focus on implementation issues before embarking on a new round of negotiations, developing countries aim to redress the rules of the trading system that are destroying rather than strengthening their economies. Washington, however, opposes demands that implementation and impact be addressed first. "A deal is a deal," said U.S. Trade Representative (USTR) Charlene Barshefsky. According to the USTR office, implementation issues cannot be addressed without securing U.S. congressional approval—an unlikely prospect. Though the U.S. is quick to raise legal and political obstacles to meeting developing countries' demands for a review of the UR agreements, it sees no problem in introducing a raft of new liberalization proposals.

Developing countries have insisted that their concerns about implementation should not be put into the negotiating mix of a new round amidst new issues that the developed countries have placed on the table. If old concerns are not resolved before new issues are raised, the South will once again be forced into a disadvantaged negotiating position. They will be forced to provide further market access concessions, including approving the new issues on the North's negotiating agenda, in exchange for new promises to achieve the balance previously promised them in the UR agreements.

The South has greeted promises that new negotiations will constitute a Development Round with skepticism, pointing out that the new issues placed on the agenda by the U.S. and EU will work against the interests of developing countries. These new issues (proposed by leading developed countries) include government procurement regulations, tariff reductions in the industrial sector, national treatment of foreign investors, competition policy, and trade in agricultural biotechnology products.

### Key Points

- The outcome of the Uruguay Round has been highly unbalanced against developing countries.
- Developing countries have requested that implementation issues be accorded immediate priority. Washington has vehemently opposed this and is instead pressuring developing countries into accepting new issues, making a mockery of the 'Development Round'.
- Along with new liberalization proposals, developed countries favor the inclusion of social issues—mainly labor and environmental standards—which developing countries oppose, fearing that manipulation of such issues will serve as a new cover for protectionism by developed countries.

As the world's leading country, the U.S. sets the agenda at the WTO. Tragically, while Washington exerts its power internationally, its interests are nationally based and are largely influenced by the myopic, profit-oriented aspirations of its corporations. Eager to impose broader and deeper market openings to increase corporate profits—through transparency in government procurement, industrial tariffs, rules deregulating trade in genetically modified products, and liberalization of most services—the U.S. consistently refuses to provide the concessions to developing countries that would lead to a more balanced trading system. Washington backs up its liberalization demands with the thinly veiled (and oft-repeated) threat that protectionism will rear its ugly head in America—the world's largest market for developing country exports—if the other WTO members do not bow to U.S. demands.

Washington has also resorted to a variety of strong-arm tactics with the trade negotiators from “troublemaking” developing countries. These tactics include diplomatic pressure on recalcitrant governments and threats to cut aid. As one trade ambassador told the *Financial Times*, “What they are good at is exerting pressure bilaterally.” One UNCTAD official privately commented that it is not merely the Quad countries (referring to the U.S., EU, Japan, and Canada) at the helm of the WTO but the Superquad—namely the United States.

The U.S. negotiating agenda at the WTO is fraught with contradictions:

Even as it promotes an ideological free trade position, Washington protects its own industries, even mature ones, when they cannot compete in the international market. This is true in textiles and footwear sectors as well as in various key agricultural products. Tariffs in some of these protected U.S. industries have remained unchanged since the 1940s. To protect its industries from foreign competition, the U.S. has repeatedly resorted to erecting antidumping duties against the industries of developing countries. Antidumping duties can be levied on a country if it is determined that the country has exported its product at lower than its domestic selling price.

Despite lobbying for policy coherence and an alignment of WTO trade rules with environment agreements, Washington has refused to make any changes in the Trade Related Intellectual Property Rights (TRIPS) agreement to reconcile it with the UN Convention on BioDiversity regarding the patenting of life forms and the protection of the traditional knowledge of

communities. And when U.S. interests are threatened, Washington's stand is that WTO pacts must supersede all other agreements.

Although President Clinton and other high government officials advocate greater transparency in the WTO, U.S. trade representatives still conduct negotiations in a secretive, nontransparent manner—excluding not only civil society organizations but even many developing country delegations. Even as America professes to be an exemplary model of democracy and decries all regimes it considers undemocratic, its bullying negotiating tactics at the WTO belie its democratic pretensions.

The new WTO issues that Washington has proposed will sideline implementation matters in any new negotiations. If these new issues are accepted, they will likely result in new rules that primarily benefit developed countries (and a small handful of higher-income developing countries), further skewing the global marketplace against the South.

To placate certain citizen groups (particularly organized labor), Washington has proposed the creation of a Trade and Labor Working Group—a move opposed by developing countries. The establishment of working groups, such as the current ones addressing transparency in government procurement, investment, and competition policy, is usually the first step toward opening negotiations on new issues. In lobbying to include labor standards within WTO rules, the U.S. government and its labor allies have apparently lost sight of the way labor standards in the U.S. have steadily improved in concert with the country's economic development. Developing countries object to linking social issues such as environment and labor standards to the trade-related enforcement mechanisms of the WTO. Concerns about social conditions in developing countries would be better received by the South if Washington and U.S. nongovernmental organizations would express their support for the South's negotiating position—namely, that the international trading system must serve the overall development needs of the world's poorer nations.

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## Key Problems

- Washington's international leadership is driven by its own national interests, particularly the profit motives of its corporations.
  - Despite promoting an ideological free trade agenda, the U.S. protects certain of its own industries.
  - Rather than putting labor issues on the WTO agenda, Washington could more genuinely manifest its concern for the well-being of developing countries by ensuring that the South's development needs are prioritized at the WTO.
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The U.S. negotiating agenda at the WTO, particularly with respect to its impact on developing countries, needs a major overhaul. A serious review of U.S. foreign trade policy should include the following considerations:

## Key Recommendations

- WTO policies require a radical review if developing countries are to be assured better growth prospects. The needs of the weakest members must be prioritized ahead of the wishes of the largest trading powers.
- The governance and decisionmaking structure of the WTO must be changed to ensure that developing countries can exercise power.
- The power of the WTO should be narrowed, rather than broadened, to ensure countries flexibility in crafting their economic policies.

Development, not just increased international trade, must become a priority of the WTO. Its rules must serve countries' development needs rather than ensuring economic growth for some members at the expense of others. The voices and needs of the weakest members should be prioritized ahead of the wishes of the largest trading powers.

The reform proposals advocated by developing countries must be taken seriously. At Seattle and beyond, the U.S. should revise its negotiating agenda in the following ways:

There should be a thorough development audit of the impact of all the Uruguay Round agreements on all countries. Unless there is good reason to believe that a new round will foster sustainable and equitable development among the developing nations, particularly among the poorest, there should not be a new round of negotiations.

Implementation issues must be put atop the WTO agenda. These issues must include a review of and moratorium on the TRIPS agreement, which has erected barriers to the acquisition of new technology and knowledge, threatens the ability of communities to conserve and sustainably use their biological diversity, and hobbles the health care system in developing countries by increasing the costs of basic pharmaceuticals.

The Trade-Related Investment Measures (TRIMS) agreement, which prohibits countries from imposing local content requirements that obligate foreign investors to use a certain percentage of domestically produced inputs, must be amended so that countries will have the freedom to enact policies needed to strengthen local industries.

There should not be undue pressure on developing countries to open up their service sectors, as in the financial services negotiations. At present, developed countries have not made any significant efforts to allow the movement of labor in the supply of services. To balance the General Agreement on Trade in Services (GATS), there must be equal treatment regarding movements of both labor and capital so far as they are related to the supply of services.

The antidumping agreement must be tightened to prevent it from being abused as part of a protectionist response by developed countries when faced with competition from developing country industries.

Special and differential treatment in agreements must be operationalized rather than be merely cosmetic. Indeed, developing countries should be exempt from certain WTO commitments until there is a level playing field.

Agriculture is the source of livelihood for the majority of people in the developing world. Apart from certain commodities that are traded for commercial reasons and have no impact on food security, food items should be exempt from WTO disciplines. WTO rules should in no way undermine the capacity of countries to ensure their own food security through national production.

The WTO must stop rushing into new issues and more liberalization; such behavior clearly does not serve the best interest of most of its members.

There must be a radical change in the governance and decisionmaking structure of the WTO. Decision-making by consensus has too easily lent itself to abuse by the most powerful. A leading WTO analyst, Martin Khor, suggests that the WTO should make public decisions, subject to parliamentary and civil society input and then submit them for a vote, "instead of manufacturing consensus."

The dispute settlement system of the WTO should be revamped to make it more transparent and to protect the interests of less powerful WTO members. Currently, the WTO's main enforcement mechanism is trade retaliation by the abused party. This system favors those governments with the most economic resources, technical expertise, and trading power. Less powerful nations would, for example, never enter a trade war with the United States. As part of a WTO commitment to help provide a more level playing field, developing countries whose rights are violated should have their cases automatically fought for them at no cost.

Finally, the WTO should not consider proposals to broaden its scope by negotiating the raft of new economic and social issues proposed by developed countries. Instead, the extent of WTO power in the global economy should be narrowed to ensure that countries have greater flexibility in crafting their own economic directions. The history of global economic governance by the IMF, the World Bank, and now the WTO has amply demonstrated that one-size-fits-all economic reforms obstruct rather than foster sustainable development.

Governments arriving in Seattle will be confronting a draft with most of the text still in brackets, signifying no agreement on most issues. Either Seattle will be declared a failure or, worse still, WTO Director General Michael Moore will hastily present a new compromise text with the blessings of the U.S. and EU, and pressure will be put on the ministers to endorse it. If this happens, and Seattle launches the euphemistically termed "Development Round," it will no doubt be, as one analyst quipped, the "Development Round to bury development."

# Sources for More Information

## Organizations

### Biothai (Thailand)

Email: biothai@wnet.net.th  
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### Focus on the Global South (Thailand)

Email: admin@focusweb.org  
Contact: Walden Bello / Aileen Kwa

### Institute for Agriculture and Trade Policy (U.S.)

Email: mritchie@iatp.org  
Contact: Mark Ritchie

### International Centre for Trade and Sustainable Development (Switzerland)

Email: ictsd@iprolink.ch  
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### Resource Center for People's Development (Phillipines)

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### South Centre (Switzerland)

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### Southeast Asian Council for Food Security and Fair Trade (Malaysia)

Email: seacon@tm.net.my  
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### Third World Network (Malaysia)

Email: twn@igc.apc.org  
Contact: Martin Khor

### Transnational Institute (Netherlands)

Email: stichele@worldcom.nl  
Contact Person: Myriam Vander Stichele

## Publications

*Bridges Weekly Trade News Digest* (Geneva: International Centre for Trade and Sustainable Development & Institute for Agriculture and Trade Policy), email: ictsd@iprolink.ch

*Briefing Papers* (CUTS Centre for International Trade, Economics and Environment, India), email: cuts@lwbbs.com

Chakravathi Raghavan, *SUNS*, a South-North development monitor (Geneva: Third World Network), email: twn@igc.apc.org

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## World Wide Web

**Center for International Environmental Law**  
<http://www.econet.apc.org/ciel>

**Focus on the Global South**  
<http://www.focusweb.org>

**Institute for Agriculture and Trade Policy**  
<http://www.iatp.org>

**International Centre for Trade and Sustainable Development**  
<http://www.ictsd.org>

**South Centre**  
<http://www.southcentre.org>

**Third World Network**  
<http://www.southside.org.sg/souths/twn/twn.htm>

**United States Trade Representative**  
<http://www.ustr.gov>

**World Trade Organization**  
<http://www.wto.org>

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