EC'S EXTREME WTO DEMANDS THREATEN DEVELOPMENT IN THE DEVELOPING COUNTRIES (in contrast to UK Trade Minister's statement).

By Martin Khor, Third World Network

The latest set of proposals by the European Union at the World Trade Organisation which seeks to impose extreme levels of liberalisation on the developing countries is in stark contradiction to a recent speech made by the Trade Minister of the United Kingdom, which presently holds the Presidency of the European Union. This begs the question: Who really speaks for Europe?

"My first priority for Hong Kong is that we must not force liberalisation on developing countries," said Alan Johnson, the UK's Secretary of Trade, in a speech in London on 20 October. "This is a development round. We must make sure that this is true. Developing countries must have flexibility to plan development in line with their own national priorities. We can't demand shock treatment liberalisation from them, when we have cherished old fashioned protectionism for ourselves."

Explaining what he meant be rejecting forced liberalisation, Johnson said: "We won't demand concessions from least developed countries" and for other developing countries "we must not prevent them engaging in deals that could offer huge opportunities. Instead, we should pursue policies that require less liberalisation from them than we concede to them; and ensure that they have the flexibility to plan and sequence liberalisation in line with national development plans."

Johnson did not link any EU agriculture offer to liberalisation in the South. On the contrary, he concluded his speech this way: "So, these are the three areas which I think can form the basis of a deal at Hong Kong. No forced liberalisation on the poorest countries. Big steps to cut trade distorting agricultural subsidies in the developed world. And abolishing all developed countries' trade distorting agricultural export support by 2010."

However, nine days later, on 28 Octobet, the EU's Trade Commissioner Peter Mandelson announced the EU's latest proposal on agriculture, in which he made clear that a condition for its offers is that the developing countries take on extreme liberalisation commitments in services and non-agricultural market access (NAMA). If these EU demands are accepted, even in dilute form, they would threaten the business and the very survival of local manufacturing and services firms in developing countries.

Mandelson's demand for NAMA is that the developing countries slash their industrial using a Swiss formula with a coefficient of 10, which means that all their tariffs, except for a few, will be reduced to a range of 0-10 per cent. For example, tariffs that are now 10% would be brought to 5%; tariffs that are 30% would be cut to 7.5%; tariffs that are 60% would now be 8.6% and tariffs above 60% would go down to about 9%.

This drastic Swiss formula with coefficient 10 in NAMA for developing countries is in stark contrast to the tariff formula proposed by the EU to cut its own tariffs in agriculture. One of the EC papers in fact states that in the history of the trading system, no country has been required to cut its tariffs by some much (i.e. 70% etc), and that maintaining livelihoods is key and should not be affected. However, it does advocate in the same proposal that developing countries' industrial tariffs be slashed – in some cases by more than 70% -- and it does not bother about the millions of jobs that will be lost in these countries if its NAMA proposal is accepted.

Some limited "flexibilities" would be available to developing countries to reduce a few of their tariff lines by less than this formula, said the EU paper. But in any event, all tariffs cannot exceed the level of 15%.

In the present NAMA framework, only 10% of tariff lines can be selected by developing countries for less than formula cuts, but they have to be cut by at least half of the formula rate, and they are to be restricted to 10% of the value of total imports. In contrast, the EU has proposed in agriculture that there be 8% of tariff lines that cane be designated as sensitive products, to have less than formula cuts, and they are not restricted to any percentage of import value.

The EU also proposed a very harsh treatment of unbound tariffs. At present, countries are allowed not to "bind" in the WTO the tariffs of some of their products (usually sensitive items which need the most protection). Since they are not "bound", these tariffs can be set at or raised to any level.

The EU proposed to remove this flexibility in the harshest way. It wants all tariffs to be bound, and at very low levels. It proposed a system to mark up the applied rates of the unbound tariffs by 10 percentage points and then reduce them by the formula. For example, a product with an applied tariff of 40% that is not bound would have 10 percentage points added to give it a base value of 50%. This would then be slashed by the formula, giving the result of the new tariff (now bound) of 8.3%.

Although many countries have liberalised their imports in recent years, they still keep moderate to high tariffs (some exceeding 50% or even 100%) for sensitive products to protect local industries. If all tariffs have to be brought down to the low levels demanded by the EU, many local firms would lose a large part of their business, or close down.

The EU demand in services is equally extreme. The present WTO rules on services allow developing countries the right to commit to open up various sub-sectors to the extent it considers appropriate, according to their national policies and interests.

Using this flexibility, developing countries have been cautious and have not opened up in many sectors in which local firms are unable to compete. Also, they have committed to open up only partially in some sectors, retaining some controls such as limits on foreign ownership.

Recently, the EU launched a campaign to establish a new "benchmarking" system in which developing countries must compulsorily commit to open up at least a certain number of services sub-sectors. Last Friday, it revealed the extent of its demands. It wants developing countries to increase liberalisation in 93 out of the 163 services sub-sectors (or 57%) classified in the WTO.

Further, it wants the WTO to launch "sectoral negotiations in key sectors to achieve quality offers for critical masses of WTO Members." By this it means that there will be additional efforts by (and thus pressures on) countries to open up in the most important sectors. The EU mentions financial services, telecommunications, distribution services, construction, computer and related services, environmental services, financial, maritime transport plus certain sub-sectors of professional and business services. According to the EU proposal, developing countries have to participate in sectoral negotiations in 8 out of 16 selected sub-sectors.

At many WTO meetings, the developing countries have voiced strong opposition to the benchmarking proposals of the EU and other developed countries. A joint statement was also issued by 14 developing countries opposing any attempts to include the "benchmarking approach" (or the setting of targets) in the Ministerial Declaration that will be adopted at the WTO's Hongkong meeting. Many others spoke in support of the 14 countries.

Despite this, the EU is insisting that its demands on services as well as on industrial tariffs be accepted, otherwise it will not keep to its agriculture offers.

The EU move is seen by many observers as deliberately asking for a "package", in which other partners have to accept its extreme demands in other areas (especially services and NAMA) so that it can shift the blame to them if its agriculture offers are rejected for being inadequate. The scene is thus set for continuing the "blame game" in which each party uses public relations to try to shift responsibility to the other parties in the event the Hong Kong Ministerial meeting does not succeed.

It is an extremely dangerous game, because the future development of the developing countries is being used as pawns in a high-level bargaining process that at the moment involves only a few countries. The Doha talks have gone a long way down the hill from the high rhetoric of the Doha Declaration that launched them in 2001, when the Trade Ministers declared that the needs and interests of developing countries would be at the centre of the negotiations.

The EU and EC keep talking about how this is a Development Round to benefit the developing countries. But in their concrete proposals and demands, it is cynically doing the opposite, as the EC's 28 October paper revealed. It could be that the UK Minister meant what he said. If so, the EU Trade Commissioner and his negotiators are doing the direct opposite of what the Minister who chairs the EU Presidency on trade is advocating.

Annex

Alan Johnson MP, UK Secretary of State for Trade and Industry

THE WALL OF SHAME

Speech at The Foreign Policy Centre, London
Thursday 20 October 2005

In just seven weeks time, trade Ministers from the 148 member nations of the World Trade Organisation gather in Hong Kong. Today I want to talk about the kind of deal I want to see at Hong Kong – one that sweeps away protectionism in the richest countries; whilst protecting the poorest.

But, first, I'd like to take the Tardis back to 1785. I've just read William Hague's excellent biography of Pitt the Younger. According to Hague, top of the Prime Ministerial in-tray in 1785 was Ireland. The British had imposed a series of increasingly pernicious protectionist measures: banning Irish ships from carrying exports; forbidding the import of Irish cattle; and levying huge duties on Irish wool.

As a result, bilateral relations were under intense pressure. Pitt was determined to resolve it. He set about persuading his parliamentary colleagues to bring these trade barriers down. In a speech to the Commons, he described Ireland's treatment as "a system of cruel and abominable restraint." He called for a "system of equality and fairness" creating a "community of benefits" and a "community of burdens." He described a system of trade with Ireland that would not "aggrandize the one or depress the other."

Sadly, the old voices of protectionism boomed louder than Pitt's. His proposals were voted down. And Ireland descended further into abject poverty. The rest, as they say, is history.

Hong Kong is a meeting of historic importance. The challenge is real - responding to unprecedented growth in Asia, unprecedented advances in technology; and unprecedented changes in demographics – all issues at the top of my Department's in tray.

The opportunity is real - 148 Trade Ministers gathering together - propelled by Gleneagles; pressured by public opinion. And the prize is real.

Trade has immense power to drive development. Just compare the track records of Latin America and East Asia since the 50s. In 1950, East Asia was poorer than Latin America. But whilst East Asia looked outwards and put trade, particularly exports first, Latin America turned inward and put protectionism first. Latin America stagnated - East Asia surged ahead.

If we don't do a deal at Hong Kong, we are left with the status quo. And no-one will suffer more from that than developing countries. Boosting Africa's share of world trade by one per cent could deliver seven times as much income as the whole continent currently gets in aid. If we get a good result at Hong Kong, the potential global gains could exceed 200 billion dollars.

Today’s trade barriers run like a huge wall across the world.

On one side of the wall, we have unprecedented change and prosperity; new technologies and products; text messages, emails and DVDs. On the other, a billion people living on less than a dollar a day; millions with AIDS; hundreds of thousands of mothers dying in pregnancy and childbirth every year.

On one side, politicians discuss the challenges of our age - globalisation, climate change and energy. On the other, African farmers retreat into isolation: hoping for rain; trying to find the energy to carry water three miles back from the nearest well.

On one side, that wall means security. On the other, it is a symbol of opportunity denied and prosperity withheld. It represents an uncrossable barrier between what you aspire to achieve and what you’re able to achieve.

The history books tell us how these walls grew - sometimes at the behest of vested interests, the same vested interests that stopped Pitt’s reforms. Whether it was right or wrong, they were sometimes created to try and foster new industries.

In Britain, we used barriers in the Industrial Revolution. America did too. In the 19th Century, President Ulysses Grant responded to British lectures on free trade by saying that, “within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade.” Europe has protected extensively since the war. Particularly in agriculture. And the South East Asian tigers have too. Japan and South Korea were protectionist in the 60s.

Protectionism has been ubiquitous. It’s not clear whether these walls actually supported development. But what is clear is that much development did occur behind them.

So when some say that all countries have to do is liberalise, tear down barriers and remove regulation to become an overnight economic success - I reject that view.

We have seen all too often before how the World Bank/IMF “one size fits all” shock therapy prescription has produced macroeconomic instability, rising unemployment and profound inequality. Societies and economies have been left dislocated.

We must proceed with sensitivity. Developing countries must have flexibility to plan development in line with their own national priorities.

We can’t demand shock treatment liberalisation from them, when we have cherished old fashioned protectionism for ourselves.

So, my first priority for Hong Kong is that we must not force liberalisation on developing countries. This is a development round. We must make sure that this is true – not just in name, but in intent and outcome as well.

We reject forced liberalisation. By this I mean:

We won’t demand concessions from least developed countries who often lack capacity to trade and sometimes depend on tariffs for their revenue base. Instead, we must leave it for them to decide the “what, when and how” of their market openings.

And for other developing countries we must not prevent them engaging in deals that could offer huge opportunities. Instead, we should pursue policies that require less liberalisation from them than we concede to them; and ensure that they have the flexibility to plan and sequence liberalisation in line with national development plans.

Some might say this is fundamentally unbalanced. But we can’t demand a balanced settlement to a system that is so fundamentally unbalanced to begin with.

To quote another US President – Lyndon Johnson, speaking in a different context:
“You do not take a man who, for years, has been hobbled by chains, liberate him, bring him to the starting line of a race, saying "you are free to compete with all the others," and still justly believe you have been completely fair.”

My second priority is for us in the rich world. Now we have developed, now we have grown our wealth, we must cut our trade distorting agricultural subsidies and remove our barriers. In Europe, we spend half our budget on agriculture. This money supports 4% of the European workforce, at the expense of more than half the workforce in many sub-Saharan economies.
In Japan, they subsidise their rice to 5 times market value. But it’s not five times tastier than Vietnamese rice.

The American cotton industries receive $4 billion a year in subsidies – more than the entire GDP of Benin - a country where the cotton industry accounts for more than three quarters of exports and is, incidentally, in deep crisis.

We can’t preach liberalisation abroad and practice protectionism at home. We must show a lead. Too many times, the rich world talks big, then delivers small. At Hong Kong, we need more political will and less political will not.

The third priority is to commit to abolish developed countries’ trade distorting agricultural export support by 2010.

Some say we can’t put a date to this. But without a date, the developing world will fear that this will drag on and on. And, given the history, who can blame them?

So we must make a firm date. The World Bank estimate that developing world farmers stand to gain twelve times more from cutting tariffs than from cutting subsidies.

And, we must deal with bureaucracy as well. In India an exporter needs 29 documents for clearance, in quadruplicate, with 257 signatures along the way. Customs delays add almost 1% to the price of goods – and average delays in Ethiopia are over a month. That’s a 30% increase in costs.

Before I close, these are complex issues. It is hard to do them justice in a speech. As Tuesday's meeting in Luxembourg showed, it is going to be hard to ensure a progressive European position at Hong Kong.

But it was our 2004 White Paper that raised the hypocrisy of developed countries lecturing poor countries about opening their markets whilst protecting their own. And it is tackling this hypocrisy, above all, which holds the key to success at Hong Kong.

So, these are the three areas which I think can form the basis of a deal at Hong Kong. No forced liberalisation on the poorest countries. Big steps to cut trade distorting agricultural subsidies in the developed world. And abolishing all developed countries' trade distorting agricultural export support by 2010.

This is an ambitious agenda. But big problems need big solutions.

Twenty years ago, no-one would have predicted the fall of the Berlin Wall, the release of Mandela and the accession of countries like Poland to the EU – all in the space of a generation. The tragedy is that, over that same period, we have still failed to address the other problem that was on our television screens and in our living rooms twenty years ago. Despite all the goodwill, all the good intentions, all the good work - poverty, malnutrition and disease are still tearing across the continent of Africa with the same relentless savagery.

We must bring this wall of shame crashing down once and for all. If we do this - by demonstrating that when we said this was a development round, we meant it - we will lift millions of the world's poorest out of poverty for good and entrench prosperity and security across the world.

It's worth fighting for.

(Paper written for the FOE/HBF Conference on The EU's Responsibility at the WTO: Environment, Gender and Development, Brussels, 9 November 2005.)