Reclaiming the Development Dimension of the Multilateral Trading System

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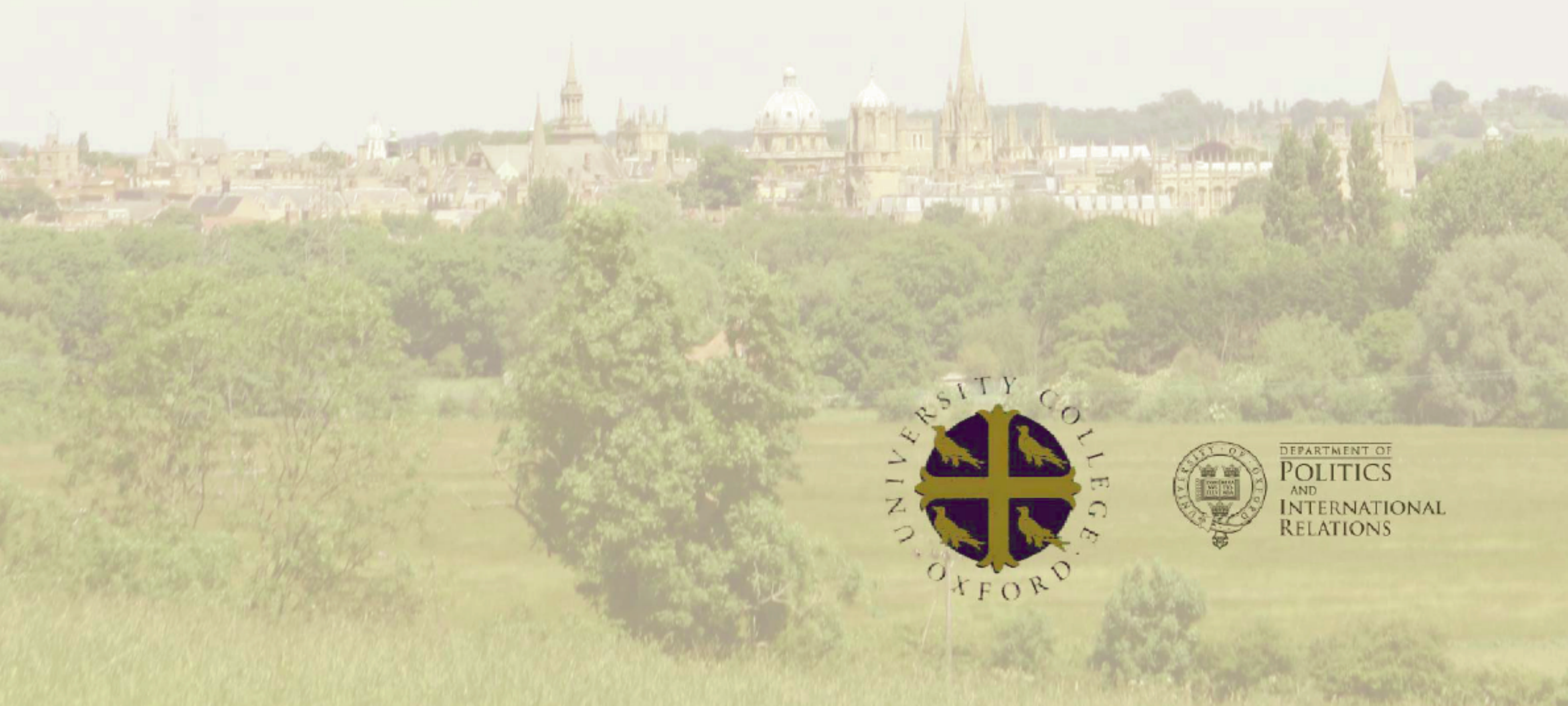

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Speaker Biography

Dr. Rob Davies

Current Position

- Deputy Minister of Trade and Industry of the Republic of South Africa since 22 June 2005.
- Focusing on issues of International Trade Relations & Industrial Policy

Academic Qualifications

- Honours degree in Economics.
- Masters degree in International Relations from the University of South Kampton, UK.
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Career/Memberships/Positions/Other Activities

- Member of Parliament since 1994.
- Member of both the African National Congress (ANC) and South African Communist Party (SACP) in Mozambique.
- Returned to South Africa in August 1990 and worked in the Department of Economic Policy at ANC Head Office in Johannesburg.
- Professor and Co-Director of Centre for Southern African Studies at University of the Western Cape 1990-1994.
- Undertook policy research for ANC and Southern African Development Community (SADC) 1990-1994.
- Member of the South African Ministerial delegation to World Trade Organization (WTO) in Seattle (1999), Doha (2001), Cancun (2003) and Hong Kong (2005).
- Led South African Delegation to the African, Caribbean, and Pacific (ACP)-European Union.
- Joint Parliamentary Assembly (JPA) since 1995-2005.
- Member of the Joint Parliamentary Assembly Bureau and ACP Co-Vice President of Human Rights 2003-2005.
- Member of Eminent Persons Group put in place by the Global Coalition for Africa (2003).
- Member of both Central Committee and Political Bureau of the SACP.

I want to begin by thanking the Global Economic Governance Programme at Oxford University and the Graduate Institute of International and Development Studies in Geneva for inviting me to share some thoughts on the multilateral trade negotiations. A forum like this offers an opportunity to rise above the esoteric minutiae of the detailed WTO Doha Round negotiation process, and reflect more broadly and analytically on the trends and processes that underpin these detailed negotiations. Such a reflection, I believe, is increasingly important at this juncture of the Doha Round negotiations.

We are meeting in the aftermath of two failed attempts in the course of the last year to get Ministers to agree on modalities on agriculture and non-agricultural market access. The first such failure was the breakdown of the Ministerial meeting that took place in July 2008, and the second, was the decision, inevitable and correct in our view, not to convene another Ministerial before the end of 2008 despite the calls for this made at the G20 Summit in November that year. Unless we seriously reflect on what is underpinning this failure, we are in danger of “doing the same thing over and over again and expecting different results.” Some of you, I am sure, will recognize this quote as Albert Einstein’s famous definition of “insanity.”

Now there are undoubtedly various ways to look at the current state of the multilateral trade negotiations. One view, which perhaps dominates, is that the deal is essentially in place and all that remains is to solve a few specific and detailed outstanding technical issues. These include the agricultural Special Safeguard Measure to enable developing countries to respond to subsidized agricultural imports. Disagreements over this issue were the immediate cause of the breakdown of the July meeting. Another outstanding issue is sectorals— the supplementary measure intended to take tariff reductions in non-agriculture market access (NAMA) further than formula cuts. The differences between the largest WTO members (the EU, US, Japan, Australia, Brazil, India and China – the so-called G7) on this issue was the proximate reason that a Ministerial Meeting in December would have been doomed to failure. According to the kind of perspective that sees the challenges as confined to a few discrete and specific issues, what is required is merely more hard work and creative interventions to split the difference between the major protagonists on these and a small number of other identified sticky issues. According to this view, once these tasks have been been achieved the deal currently on the table will deliver on the mandate agreed at the 2001 Doha Ministerial and contribute significantly to rebalancing the global trading system in favour of developing countries.

An alternative perspective, which I want to elaborate and defend this evening, is that the differences that have arisen on the discrete and rather esoteric issues that have thus far bedeviled the conclusion to the Doha Round, are in fact symptoms of something more profound: a more fundamental imbalance between the legitimate claims of developmental reforms to the global trading system and the frankly mercantilist commercial interests of forces benefiting from the existing unbalanced global trading system. From this, I argue that the specific issues that have emerged as sticking points in the current negotiations are merely part of a longer list of potential matters arising from these imbalances that could become sticking points at any stage along the process. Based on such a perspective, I contend that there is a need to shift the debate and focus back to how we can reclaim the developmental content of the Doha Round negotiations, which is after all what is called for in the 2001 Ministerial mandate. Furthermore, I would suggest that the negotiating process we have been involved in to date, while clearly an improvement in terms of matters like inclusiveness and transparency over those that prevailed during Uruguay Round, also desperately needs to be the subject of further reflection and debate. The theme of this lecture series, “Global Economic Governance,” is therefore, in my view, very apposite and appropriate in the current global circumstances that we find ourselves in.

Let me then go back and briefly outline how I see the fundamental developmental challenges facing the multilateral trade negotiating process. We have been living through a period commonly described as globalization. Whether this lasts in its current form, is reversed, or is partially impeded in the current global economic downturn remains to be seen. But since the late 1980’s we have witnessed a very significant lowering of tariff and other barriers to the freer movement of capital and goods across national borders, and the consequent emergence of an increasingly *transnational* economy characterized by, in the words of Eric Hobsbawm, “a system of economic activities for which state territories and state frontiers are not the basic framework, but complicating factors.” The World Trade Organization (and its predecessor the GATT) has, of course, played a critically important role in creating the conditions for the emergence of what Manuel Castells has called a “globally networked” economy. The

Marrakesh Agreement resulting from the Uruguay Round negotiations brought about a very substantial lowering of average tariff levels. Reflecting also the increasing inter-connectedness of various forms of regulation in an agenda of liberalization, the Uruguay Round also inaugurated a process of expanding the negotiating agenda to include "new" issues like "trade in services" and "trade-related" rules.

The process of liberalization associated with contemporary globalization has, however, been highly uneven and unequal. In particular, developing countries found themselves under strong pressure to make sharp tariff reductions involving significant adjustment costs, only to confront the continued existence of major barriers in areas where the developing world enjoyed comparative and potential competitive advantage (most starkly in agriculture). Despite this, (and this is significant within the current WTO dynamics), some developing countries – albeit not by following orthodox, neo-liberal policy prescriptions - did manage to position themselves to take advantage of new trade opportunities. Countries like Brazil, China, and India emerged as significant forces in international trade, propelling an increase in developing countries' share of world trade to 37%, which is poised to reach 50% in the near future. The rise of the BRICs as industrial powers is now posing competitive challenges to established industrial countries in many industrial sectors; this has significantly impacted positions in the multilateral trade negotiations.

This then forms the context within which we need to examine the Doha mandate. Against the backdrop of a failed Ministerial in Seattle in 1999, and increasing complaints by developing countries that they were being marginalized in the multilateral system, Ministers agreed at Doha in 2001 to launch a Round in which "the needs and interests of developing countries would be placed at the heart of the work programme." Indeed, developing countries only agreed at Doha to another round of multilateral trade negotiations, on the condition that developmental concerns would be prioritized and shape the process.

In particular, the Doha Declaration held out the promise that for the first time agriculture would be subject to serious multilateral disciplines. Agriculture, and agro-industries, are sectors in which many developing countries enjoy actual or potential competitive advantages over developed countries. Yet precisely because of this, farmers in the developed world have long been shielded by a combination of subsidies, high tariffs, and other protective measures that have prevented developing country competitors from realizing these comparative and potential competitive advantages. The Doha Declaration spoke of setting a date for the elimination of all export subsidies and agreeing to a "significant reduction" of production subsidies and high tariffs, particularly on products of export interest to developing countries. On industrial tariffs (or non-agricultural market access, NAMA, in WTO jargon), the Doha Declaration spoke of removing high tariffs particularly on products of export interest to developing countries. This was not, however, secured as the compromise was that there would also be (less severe) cuts in high industrial tariffs in larger developing countries. Other important subjects on the Doha agenda were to include a special "Aid for Trade" package for developing countries, revision of rules on trade remedies and intellectual property, and new disciplines on trade and the environment, trade facilitation, and trade in services (particularly opening up access in areas and modes of delivery of interest to developing countries).

The current impasse in the Doha Round negotiations arises fundamentally, in my view, from priority developmental issues being displaced by commercial demands of developed country interest groups. The WTO negotiation process has been described as a schmorgasbord, where one puts something into the pot in order to take something out. Only the naïve would imagine that in such a process there would not be some payment for the reforms and demands sought by the developing world.

The problem is, however, that the developmental adjustments offered have been extremely modest, whilst the price requested in return has been excessive. It has been widely argued and is broadly accepted that agriculture is the locomotive of the Round. This has been understood to mean that the pace and ambition set in agriculture will be the touchstone for setting the level of ambition for the Round as a whole. There are of course good reasons for this. Agriculture is the area where the distortions in the trading system to the disadvantage of developing countries are most stark. Agriculture and agro industries are also the areas where many developing countries enjoy an existing natural comparative advantage and have the best possibilities of developing this into a competitive, value-added advantage. The extent and impact of high tariffs and extensive subsides to small numbers of farmers in the developed world on the larger number of poor farmers in the developing world has been well documented. The total value of subsides deployed in the developed world is more than the Gross National Product of the whole of sub-Saharan African, and the subsidy per cow paid in the worst cases is more than the amount many of the world's poorest people are forced to exist on.

The Agriculture text that emerged at the end of last year is the culmination of seven years of intense negotiation. It is a splendid piece of craftsmanship, testimony to the facilitating skills of the chairperson of the negotiating group, Ambassador Crawford Falconer. Yet the very intricacy and skilful balances contained in that document are testimony also to the fundamental reality that the level of ambition in agriculture, as far as reforms to benefit the developing world are concerned, is modest.

This is exemplified by the commitments that the United States would be required to take in cutting production subsidies, as measured by the levels of Overall Trade Distorting Support (OTDS). The so-called "Lamy package" tabled in July 2008 called for the United States to reduce the spending level of its OTDS to a ceiling of 14.5 billion USD. But the United States, in 2007, actually spent only around 7-8 billion USD on such trade distorting production subsides. In other words, the United States will be required to make a reduction from its very high Uruguay Round bound rates (the ceiling above which it cannot subsidise its farmers), but it would not be required to make a cut into the actual current applied rate of those subsides. The carefully crafted text put together by Mr. Falconer, also includes many provisions to accommodate stated sensitivities of individual developed countries, both in subsidy and in tariff reduction commitments. In July, Minister Celso Amorim of Brazil circulated a list of 32 specific flexibilities that the EU, US, and G10 countries were demanding that their specific sensitivities be accomodated. By December, these demands had increased as countries like Japan and Canada demanded even greater exemptions for their sensitive agricultural products.

As far as tariff reduction commitments are concerned, here the level of ambition is, quite frankly, once again modest. South Africa has bilateral trade arrangements with both the European Union and the United States. These bilateral arrangements provide preferential access for some agricultural products, but exclude others deemed to be sensitive. These are precisely those products where we enjoy comparative or competitive advantages against competitors. For us then, questions of the treatment of sensitive products and of Tariff Rate Quota (TRQ) creation are major points that will determine whether or not the Round will be of any significant commercial benefit to us. At this point, our estimation is that we do not expect the market access provisions in the current text to provide any significant new commercially viable market opportunities that we do not already have through current bilateral arrangements.

On the other hand, on the issues and areas of commercial interest to the developed countries, we have seen exorbitant demands for cuts into currently applied rates. In the NAMA negotiations, the level of ambition has been set at a level that will accommodate developed countries' demands to enjoy new, real market access to dynamic, industrial markets of the so-called advanced developing countries. These demands have largely targeted India, Brazil, and China. But South Africa has found itself facing very significant challenges in this regard as well. During the Uruguay Round, through a combination of arrogance on the part of the old apartheid order, and the views and positions of other players, South Africa was regarded as a developed country. The result was that we took the cuts in industrial tariffs that then applied to developed, rather than developing countries. Through an extensive process of interrogation and discussion within the WTO negotiating process, it has now been acknowledged that South Africa's bound industrial tariffs are considerably lower than those of any other comparable developing country.

In such a context, the application of the proposed tariff cutting formula – the so-called "simple Swiss" formula - applied line by line, would cut not just into the water between our bound and applied tariffs, but very deeply into our actual industrial tariffs. A Swiss formula with a coefficient of 22 as provided for in the July package, 23% of South Africa's industrial tariff lines would take a cut of 30% or more at applied rates even after applying the flexibilities provided for developing countries having to accept formula cuts. Moreover, these cuts would apply not just to South Africa, but to all members of the Southern African Customs Union, Botswana, Lesotho, Namibia, and Swaziland, as well as us. That list includes one least developed country and three Small Vulnerable Economies, which would not otherwise be required to take such cuts.

When we look at such a deal from the South African point of view, we see the certainty of paying with jobs and industrial development opportunities in NAMA in return for little or no direct commercial gain for South Africa in agriculture. The approach to the NAMA negotiations, furthermore, was characterized by a demand for the rigorous application of a one-size-fits-all approach, without any willingness until very recently to recognize the difficulties this might create. In sharp contrast to the text carefully crafted and put together with attention to the sensitivities of individual developed country members in agriculture, the texts repeatedly churned out in NAMA were slim volume reiterations of the need to create new market access for the developed world by cutting into applied industrial tariffs in the advanced developing countries.

Only with the appointment of Ambassador Lucius Wasescha in July 2008 as the new chair of NAMA, have we begun to see a significant recognition that more sensitivity to the needs of particular developing countries and their specific situations is necessary. We have now won acceptance of South Africa's need to be accorded additional flexibilities, but these particular negotiations are not yet complete and what is currently available to us is completely unacceptable to our government and constituencies.

But the issues in NAMA are not just confined to questions of coefficients and flexibilities. When the previous chair reluctantly began to recognize that there were problems with a one-size-fits-all approach and suggested some differentiation between developing countries, the response from vested interests in the developed world was a howl of indignation that the level of ambition in NAMA was being reduced. Two responses emerged from this, both of which were integrated into the July package.

The first was a demand for an "anti concentration clause," which stated that flexibilities could not be applied to more than 80% of the tariff lines in any individual sector. The problem here is that in some of our sensitive industries, such as clothing and textiles, there is a high level of substitutability between products. In such cases, being obliged to exclude a significant percentage of lines in the Chapter from the application of flexibilities could expose products and jobs in sensitive sectors to competition from imported products which are potential substitutes.

The second issue, which ultimately became the breaking point in December, was the question of sectorals. Sectorals are a mechanism that is supposed to reduce tariffs in specific, identified sectors and among participating countries to levels below those which would result from the application of the formula. The understanding has long been that sectorals would be a voluntary exercise undertaken by countries that felt so disposed.

Yet what we saw in July, and again in December, was an attempt to make the commitment to sectoral negotiation compulsory.

In December, we saw the United States insisting that China, India, and Brazil, commit themselves to participating in a sectoral on chemicals and one other sector of export interest to the United States. This commitment, it was also demanded, should be such that once begun, parties could not exit a sectoral negotiation without an agreement. This demand tabled by a US Administration, which a month earlier had identified a successful conclusion of the Doha Round as a critical component of the response to the global economic crisis, speaks volumes about the underlying problems of the Doha negotiating process. What we saw in December was the supposed end game of a purported development round dominated not by concerns to widen access for products of export interest to developing countries, but by very blatant sectional demands to provide market access for products of export interest to industrialized countries.

In lists of specific issues that have been identified as unresolved – or in WTO jargon "not yet stabilized" - the same basic underlying imbalance can be identified: what is offered by the developed world in areas of export interest to developing countries is modest. By comparison, what is demanded in return is excessive and greedy.

It's not that the modest gains are not worth having or that they are not a step in the right direction. They are. The issue is that the price demanded in return is too high. This is partly masked by the fact that those that may benefit and those that would pay are not necessarily the same countries. Countries with diverse export interests, or placed in various categories in terms of reduction commitments, may look at the available package somewhat differently. We in South Africa feel that we have been placed at the sharp end and exposed to the full imbalances that underline this current package.

So how then do we move forward from here?

First, I contend that it is imperative the imbalances and inequities to the disadvantage of developing countries are fully recognized and acknowledged. If in the end we are obliged to conclude all that is available in agriculture is a set of fairly modest reforms - moves in the right direction, but moves that which still leave intact a highly distorted agricultural trading system to the disadvantage of developing countries - then let us not be required to pay inordinately in return.

Secondly, I believe that there is a need to reflect seriously on the processes through which a supposed "development Round" has delivered such an outcome. The theme of "global economic governance" to which this lecture series has devoted itself is, I believe, extremely relevant in this regard.

I want to acknowledge that there have indeed been important reforms in the direction of greater inclusiveness and transparency since the collapse of the Seattle Ministerial in 1999. More developing countries are now represented in the Green Room and there is more extensive discussion and consultation with them by the Director General and his staff. Care is also taken to ensure that Green Room processes are followed by efforts to report-back to bigger groups, like the Trade Negotiating Committee and so on. Having said that, I believe that there are still some fundamental issues of governance and organization that need to be addressed. As these have been the subject of a number of studies – notably by the 2007 Warwick Commission and the earlier Sutherland Report – I will confine myself to a few remarks about just one issue: the principles underlying the composition of small groups.

If it is inevitable, as it is, that negotiating processes involving a membership of over 150 countries have to occasionally break down into smaller group interactions, then it is also critically important that we reflect on the principles underlying the composition of those smaller groups particularly in a Round that is supposed to prioritize the needs of developing countries.

I refer in particular to the process through which the "deal" that was presented at the July meeting was adopted. A small group – the G7 - was put together to respond to a document, which is now called "the Lamy package," which represented the WTO Secretariat's estimation of the "shape of the deal." What was the composition of this group? Four developed countries (the United States, the European Union, Japan, and Australia) and three developing countries(China, India, and Brazil). The composition of the G7 has been seen as harking back to notion of the "Principal Supplier" deployed in the Uruguay Round, which involved bringing together the largest economies and biggest trading nations to “crack the deal.” Absent from the G7 in July were any representatives of countries involved in critical outstanding issues - the Cotton 4, the banana producers - or indeed any country from the African continent. Moreover, it was unclear whether those developing countries that were there who were also members, or even conveners, of such groups as the G20, G33, or NAMA11 were supposed to represent the views of those groups or merely their own country interests. Even if there had been agreement among the G7 (which there was not) and even if there had been no other issues of substance outstanding (and there were in fact many), it is not at all clear that such a process could deliver a legitimate outcome acceptable to the membership as a whole.

Would it not be better to recognize the reality of the different groups and alliances that have emerged in the WTO negotiating process? Would it not be better, when small groups are necessary, to convene mandated representatives of recognized groups? Should there not also be explicit recognition of the need for timeouts, where mandated representatives of those constituencies or groups consult with their members, and come back with new mandates and agreed positions on the matter at hand?

These are just some issues that I believe should be explored and examined as part of the quest for a more inclusive, legitimate, and effective negotiating process.

Chairperson, Ladies and Gentlemen, a multilateral rules based trading system is an important component of a necessary system of global economic governance. A system in which trade rules and trade commitments can be negotiated in a forum, in which many countries, developed and developing are there, and in which each has at least theoretical equal weight is something that must be preserved and defended. Without a multilateral rules-based system, developing countries would be placed entirely at the mercy of developed countries in atomized bilateral negotiating processes. Our experience has shown that through bilateral processes we cannot address any of the big systemic challengers such as subsides, trade remedies, and the like. With the world now entering a period of severe economic downturn, a period that inevitably will see intensified competition between individual businesses and between countries to determine who is going to bear the brunt of this down swing, it is more important now than ever, that we retain and defend institutions that are capable of reforming to provide equitable global economic governance. The long period in concluding the Doha Round, and the many breakdowns, crises, and impasses that have occurred in the process, has without a doubt damaged the credibility of the WTO and of the multilateral rules based trading system.

In the current global economic crisis in particular, I believe that it is important that the WTO makes progress in the Doha Round negotiations. Not just to conclude these on the basis of splitting the difference between the legitimate development concerns and the mercantilist aspirations of the powerful in the developed world, but by actually working to regain a developmental balance and deliver an outcome that is at least reasonably faithful to the Doha mandate that underpinned the current process.

We've seen two important new developments that will impact the prospects for a development outcome. These are, of course, firstly the global economic crisis. This has already had a very profound impact on global trade and will no doubt shape positions in both bilateral and multilateral trade negotiations for many years to come. In this context, I want to refer to one very real danger I see potentially impacting the Doha Round negotiations: that worthy calls to "renounce protectionism" merely become a mechanism to tolerate the deployment of vast sums of money to shield investments and jobs in the rich world from the effects of the inevitable destruction of capital in vulnerable industries, while depriving developing countries of the means to defend themselves through programmes that will inevitably have to involve a higher proportion of non-financial measures. Such an outcome would simply further widen the imbalances between developed and developing countries and make a successful development outcome to the Doha Round even more remote.

On the other hand, we've seen some important and welcomed political changes. We as South Africa made it very clear in December that we found it unacceptable at a time when the United States had elected a new President, to try to rush through an agreement endorsed by its predecessor, particularly one based on tacit assumptions that the outgoing administration would be more willing to deal than its successor. We argued then that we should look forward to working with a new administration that had committed itself to strengthening multilateralism. In the fullness of time and during the course of this year, we, along with other delegations look forward to renewing our engagements in the Doha Round negotiations, with a new hope that we will yet be able to reclaim the developmental promise of the Doha Development Agenda.

I thank you for your attention and for this opportunity.

DEPARTMENT OF POLITICS AND INTERNATIONAL RELATIONS

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