TRADE INVADERS

The WTO & developing countries' 'Right to Protect'

ActionAid International

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Foreword

The conclusion of the Doha round of negotiations at the WTO is fast approaching and, the closer it gets, the more rich countries are pressurising poorer nations to embrace global free trade. The US and EU, meanwhile, are resisting calls to make meaningful cuts in the agricultural subsidies they provide to their farmers. What's more, in return for any cuts – no matter how small – they have offered to make, they want developing countries to commit to opening up their markets for industrial goods and services.

ActionAid believes that such tactics make a mockery of this round of trade talks. These negotiations – the so-called 'development round' launched in Qatar in 2001 – are meant to culminate in an agreement that will help bring the benefits of global trade to the world's poorest nations. But, far from alleviating poverty and bringing about economic development, we believe the outcome of these negotiations – as they currently stand – could threaten the livelihoods of millions of people in the African, Asian and Latin American countries in which we work.

As this report shows, when cheap subsidised imports from Europe, for instance, are dumped in countries like Ghana and the Gambia, it is the very people whom 'free' trade is meant to help who are hurt the most. As our real life stories show, factories close, fields lie fallow, jobs are lost and poverty deepens. This is why we are calling not only for an immediate end to agricultural subsidies in rich countries but also for poor countries to have the right to protect the livelihoods of their small-scale farmers and the food security of the broader population.

Furthermore, we believe that, despite what rich countries are pushing for, poor countries should have the right to liberalise their industrial and service sectors if and when they want to. As the experiences of Nigeria's textile workers and the communities in South Africa affected by water privatisation clearly demonstrate, it is the poor who currently suffer the most and will continue to suffer the most from a proliferation of unfair trade rules.

We therefore believe that developing countries should have the right to protect their 'policy space' in the multilateral trading system so that they can nurture, among other things, their agriculture, industrial and service sectors in any way they deem appropriate, just as today's industrialised countries did when they were developing. Our report explains in more detail what happens to poor people, be they maize farmers in South Africa, dairy farmers in Brazil or silk weavers in India, when this right to protect is denied.

As part of the global trade justice movement, we will continue campaigning for this right, so that the livelihoods of millions of poor people around the world are not threatened by the bullying tactics of rich countries. Developing countries, and particularly the groups such as the G-20, G-33, and G-90 representing them, must demand an outcome from the negotiations that will truly bring about development.

Ramesh Singh

Chief Executive
ActionAid International

Executive summary

"The field we used to plant rice in is now lying fallow and it's being used to play football. We cannot make ends meet. We are being forced to compete in foreign markets. It's like our under-20 football team facing Manchester United."
John Ayariga, rice farmer, Bolgatanga, Upper East Region, Ghana

"There is no work, I am just sitting begging."
Vishambar, 35, former weaver, Varanasi, India.

"This has affected us so much … You think twice now … whether to buy a loaf of bread or save it to buy water."
Jennifer Makoatsane, 34, private water company customer, Soweto, South Africa

"There is a powerful movement in milk and dairy production that … leads to the exclusion of small farmers."
Sérgio Antônio Görgen, dairy farmer, Brazil.

The livelihoods of millions of the world's poorest people are threatened by negotiations taking place right now, in preparation for the World Trade Organization's ministerial meeting in Hong Kong.

Rich countries are seeking new export markets for their agricultural produce, industrial products and services. They want all countries, including the poorest, to sign up to new trade commitments that will further open up their economies to international competition.

ActionAid's research shows that current trade liberalisation measures are already affecting poor people in many developing countries. If the rich countries aren't stopped, poverty and inequality in many of the countries in which we work could deepen.

- In the **Gambia**, cheap imports of chicken, eggs, milk and rice have flooded the market, depressing prices and putting many local producers out of business.
- In **South Africa**, the elimination of tariffs and subsidies has driven many small-scale farmers, especially maize producers, out of business. Between 1993 and 2002, the number of commercial farming units dropped by 21 per cent while the farm workforce fell by 14 per cent.
- In northern **Ghana,** cheap, subsidised rice has flooded the market. Most farmers have not made any money from farming rice in recent years and, in 2002 and 2004, two-thirds actually lost money.

- In **Brazil**, the lifting of trade barriers has allowed multinational corporations to squeeze small-scale dairy farmers out of the market, threatening the only lifeline they have when their crops fail.

- The removal of tariffs on textile imports has forced 20 factories in **Nigeria** to close with the loss of over 16,000 jobs. A further 18 factories are threatened with closure. Since 1998, almost two-thirds of jobs in the sector have been lost.

- In **India**, reductions in import tariffs on industrial products such as textiles and leather have resulted in a surge of cheaper imports and the closure of many companies. In 2004, nearly 500 factories closed.

- In **South Africa**, water privatisation has meant that around half a million people were cut off for non-payment of their water bills during a three-month period in 2001. Outbreaks of cholera have also been reported as families resort to drawing water from polluted rivers.

- In **Pakistan**, increased foreign competition in the fisheries sector is edging 300,000 local fisherfolk out of the market.

It has been argued that trade liberalisation is a route for developing countries to work their way out of poverty. Our evidence shows, however, that premature trade liberalisation can push back development and that experiences like those of John, Vishambar, Jennifer and Sérgio could become more and more common. We therefore believe that poor countries must have the right to protect their frail economies from the ravages of global competition.

Negotiations on agriculture

The EU and US claim to have cut their domestic agricultural subsidies over the years but, in reality, there have been no substantial reductions. And, despite their recent offers to cut their subsidies, they intend to continue as before by simply taking their subsidies out of one category or 'box' and re-allocating them to another. According to ActionAid's estimates, the US gives $25 billion a year in farm subsidies, but, after implementing its current proposal, it would still give $17-27 billion a year. Likewise, the EU gives around €64 billion annually but, under its current proposal, it could still give €55-58 billion. These recent offers are therefore nothing more than an illusion.

Furthermore, the US is avoiding any genuine commitment to reducing its cotton subsidies while 10 million poor cotton farmers in West Africa continue to suffer and their calls for justice go unheeded. Developed countries are also resisting calls for developing countries to be allowed to exempt vital food crops (Special Products) from tariff reductions and secure a system (known as the Special Safeguard Mechanism) for addressing surges of agricultural imports. What's more, developed countries have *introduced a new category of 'sensitive products' into the negotiations as a way of protecting their own markets.*

Negotiations on industrial products

In the current negotiations on 'non agricultural market access' (NAMA), rich countries are pushing for major reductions in developing countries' tariffs on industrial imports, claiming it is in developing countries' own interests.

However, industrial tariffs play an important role in protecting infant industries, creating jobs and tackling balance of payments problems. In fact, when today's rich countries were industrialising, they used tariffs to do exactly this, as did South Korea and Taiwan more recently.

Negotiations on services

In the General Agreement on Trade in Services (GATS) talks, poor countries are under pressure to open up their service sectors to foreign exporters. Nothing, not even essential services such as water, education and health, is excluded from possible liberalisation in these negotiations.

The developed countries are also pushing to replace a voluntary process with one that requires minimum commitments from all countries. But they are resisting calls from developing countries to liberalise rules on the cross-border movement of workers.

"We want to liberalise trade and grow markets in which to sell European goods and services. Multilateral [WTO] negotiations offer the biggest prize in achieving this."
Peter Mandelson, EU Trade Commissioner, 2 July 2005

" The US ... will benefit the most from bold trade liberalisation reforms."
Robert Portman, US Trade Representative, 21 September 2005

"When the crunch comes, the [EU] ...will be heavily influenced by how ambitious all WTO members are on NAMA and services. And there will certainly be no deal on agriculture unless and until there is a balanced outcome across the board."
Peter Mandelson, EU Trade Commissioner, 10 October 2005

ActionAid's recommendations

Clearly, the current negotiations will not deliver a truly pro-development outcome to the Doha Round because they don't take into account the needs of poor people. If the final deal is any thing like that which is presently on the table, ActionAid believes that poor countries should make history and reject it.

Developed countries must stop forcing poorer nations to liberalise, and allow developing countries the right to choose their own policies, at their own pace. We believe that all poor countries have this right to protect their economies and that anything less than full recognition of this right is unacceptable.

More specifically, we recommend that:

- developed countries should announce an early end date for the genuine elimination of all trade-distorting domestic and export subsidies
- developing countries should have meaningful and substantial access to Special Products and a Special Safeguard Mechanism
- US cotton subsidies should be eliminated immediately so that the livelihoods of 10 million poor cotton farmers in West Africa are no longer jeopardised, and the affected farmers should be compensated for their losses
- developing countries should have the right to chose which industrial products they want to open up to foreign competition and they must not be forced to liberalise when it is against their own interests
- developed countries should stop forcing poor countries to liberalise their service sectors
- public services, such as water, education and health, should be explicitly excluded from liberalisation commitments
- developing countries should have access to substantial special treatment to protect their frail economies from foreign competition
- any commitment from developed countries should not be contingent upon developing countries' commitments to other agreements.

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Chapter 1

Overview

Decisions made by trade negotiators over the next few weeks will affect the lives of millions of people around the world. The negotiations taking place in the World Trade Organisation pose a major threat to developing countries and to poor people in particular.

Rich countries are using their muscle to secure new markets for their exports of farm produce, industrial products and services. Their aim is to push all countries, including the poorest and least developed, to sign up to new liberalisation commitments in these three areas of trade and further open up their economies to international competition. Unless this push is halted now, poverty and inequality in many poor countries could deepen.

On the brink of crisis

In this report, ActionAid presents new analysis and case studies showing how the poor are being undermined by current trade liberalisation measures, why any new liberalisation agreements would be disastrous for poor people, and why the rich countries' current push for further liberalisation must be stopped.

ActionAid believes that there is an urgent need to halt the trade negotiations, and to take stock of the situation by assessing all areas of the negotiations from a development and pro-poor perspective. The negotiations must take into account the needs of poor people and, for this to happen, all agreements need to be re-focused: instead of pursuing 'progressive liberalisation' for developing countries, they need to focus on the 'right to protect'. In other words, they need to promote policies that protect developing countries' frail agriculture and industry from the ravages of international competition, and instead nurture them. Such an approach is not overly idealistic: in fact, it is in line with what many international organisations, academics, and developing countries themselves, are calling for.

In 2001, after the WTO's Doha ministerial meeting, members adopted a declaration stating that "the majority of WTO members are developing countries" and that countries will "seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration". With the current state of negotiations, this objective is far from met. Indeed, not only are the negotiations failing to promote development, but they are also on the verge of contributing to further increases in poverty levels in developing countries.[1]

If the final deal is anything like that which is presently on the table, ActionAid believes that poor countries at the WTO should make history and reject it.

[1] Unless specified otherwise, the term 'developing countries' in this report is taken to include least developed countries.

Developed countries must stop forcing poorer nations to liberalise, and allow developing countries the right to choose their own policies, at their own pace.

What rich countries want

US and EU leaders have explicitly outlined their basic goals for the current WTO negotiations in recent speeches and publications. EU Trade Commissioner Peter Mandelson, for instance, said in July 2005: "We want to liberalise trade and grow markets in which to sell European goods and services. Multilateral [WTO] negotiations offer the biggest prize in achieving this."[2] He has also stated that the EU's primary goal is to "open markets for industrial goods, services and agriculture, including between developing countries".[3]

Furthermore, Mandelson has said that the EU's goals are ambitious and that they want to "reduce the tariff and non-tariff barriers to trade for all those countries in a position to do so and to assist with the means for those who need a more progressive integration to the global economy."[4] And, writing in the *Financial Times*, he declared that the key to the current negotiations was for all countries to commit "to offering new, real business opportunities to economic operators from other countries, be it in industry, agriculture or services".[5]

For the US, Trade Representative Robert Portman has said: "The promise of these global trade talks can only be fully realised with deep and balanced ambition in the three core areas of market access: agriculture, goods and services."[6] In September 2005, Portman also said that the current negotiations are "the opportunity to significantly improve market access for our products all around the globe". Candidly, he added: "The US is already the most open developed country, and we will benefit the most from bold trade liberalisation reforms."[7]

The rhetoric about development invariably spouted by officials is contradicted by the actual negotiating stances of the developed countries. While developed country governments have this year tried to position themselves as champions of Africa, their delegations at the recent WTO negotiations in Geneva have been strongly pushing an agenda based on the interests of big business. The negotiations in the areas of agriculture, industrial products and services are all threatening to open up developing countries' economies to control by Northern-based corporations. Business groups are strongly

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[2] Peter Mandelson, speech, 21 July 2005, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles
[3] Peter Mandelson, speech, 4 October 2004, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles
[4] Peter Mandelson, speech, 21 July 2005, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles
[5] Peter Mandelson, *Financial Times*, 3 May 2005
[6] Robert Portman, 'Kick-starting global trade talks', *International Herald Tribune*, 2 May 2005
[7] Robert Portman, Statement before the US Committee on Agriculture, Nutrition and Forestry, US Senate, 21 September 2005, www.ustr.gov

lobbying for a 'successful' outcome of deep liberalisation commitments. In September, for example, six major business groups from the EU, Canada, Mexico, Japan and Australia issued a joint statement warning that the talks were "on the verge of collapse". Urging "deep and comprehensive tariff reductions" in industrial goods, they stated that a failure to reach agreement in Hong Kong "may have serious consequences for worldwide economic growth and development and has the potential of striking a critical blow to the heart of the current round".[8]

Organisations like UNICE (the European employers' federation), the European Roundtable of Industrialists (consisting of the EU's most influential transnational corporations), Eurocommerce (representing EU retail and wholesale companies), the European Services Forum (representing service companies), the Transatlantic Business Dialogue (representing major EU and US corporations) and the International Chamber of Commerce are all heavily lobbying in Brussels and/or Washington, and are seeking across-the-board liberalisation in services, investment, agricultural goods and industrial goods, as well as in government procurement, and the establishment of favourable investment climates in other countries.[9]

The good news is that the negotiations are effectively stalled in most areas, though the danger is that unfair 'agreements' will be reached to the disadvantage of developing countries, either because of pressure on them or division amongst them, or because they calculate that this might be the best of a bad job.

The bad news is that the developed countries are clearly going to use their muscle in a variety of ways. Rich countries, especially the EU, are currently refusing to eradicate their domestic and export agricultural subsidies until developing countries agree to further liberalisation in industrial products and services.[10] Developed country groups have warned that unless the poorer countries make better liberalisation 'offers' in the negotiations on services, "Hong Kong will fail".[11]

Another danger is that developing countries will, in effect, be bought off by promises of 'aid for trade' – i.e. receiving capacity-building assistance to improve their trade performance provided they sign up to deeper liberalisation commitments. While such aid is certainly needed, whether it is worth it depends on the terms under which it is provided. For instance, the price will be too high if aid simply enables poor countries to implement agreements they are opposed to, for good reason, in the first place.

Rich countries continue to resist calls from the world's poorest countries for fairer treatment and different rules. Indeed, as at the previous WTO ministerial meetings in Doha in 2001 and Cancun in 2003, the rich countries' agenda defies what the

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[8] http://www.businessroundtable.org/pdf/20050905003WBLGJointStatement.pdf
[9] See, for example, recent UNICE and Eurocommerce publications at www.unice.org and www.eurocommerce.be
[10] 'Supachai: Negotiations behind schedule for July, Hong Kong', *BRIDGES Weekly Trade News Digest*, 4 May 2005, www.ictsd.org
[11] Cited in Focus on the Global South, 'The end of an illusion: WTO reform, global civil society and the road to Hong Kong', *Focus on Trade*, Issue No. 108, April 2005, www.focusweb.org

governments of developing countries, representing most of the world's people, are asking for. Even though many issues from previous WTO negotiating rounds have still not been implemented to the benefit of developing countries, developed countries are nevertheless seeking major new liberalisation commitments from them.

If developed countries succeed in this strategy, the result will be continuing disaster for developing countries. Poor countries' agricultural systems and food security, as well as their industrial sectors, are currently being undermined by liberalisation policies and WTO rules. The danger is that agriculture, industry and service sectors could be further decimated, threatening wider de-industrialisation. It is no exaggeration to say that this is what is at stake in the negotiations. It is for this reason that any deal in Hong Kong is likely to be worse than no deal at all.

The developing world's experience of trade liberalisation

The debate on trade liberalisation has been one of the fiercest in recent years. Many government and multilateral institution officials, and some academics, still argue that trade liberalisation is a sure route for developing countries to work their way out of poverty. At the same time, a mountain of evidence gathered by ActionAid and other NGOs, and by academics, demonstrates how trade liberalisation in developing countries has consistently hurt the poor and pushed back development.

Overall, ActionAid's experience has shown that, while trade liberalisation can sometimes be good for poverty eradication and development, more often than not it has detrimental effects, and that alternative policies are urgently needed. In particular, as will be shown later in this report, cheap imports can massively undermine local production, especially in agriculture, and deepen the poverty of vulnerable farmers.

Advocates of trade liberalisation often argue that it can induce technological innovation, undermine elite privilege, and thus contribute to general economic growth. This can happen, but so can the opposite: imported technology can crowd out local technology and investment, while corruption can be induced by new links with foreign corporations. In short, whether trade liberalisation benefits the general population often depends on factors other than trade liberalisation itself, such as governance, income distribution and policies of equity promoted by the government. The wealth generated by increased exports, for instance, can, depending on domestic circumstances, either be funnelled to domestic elites or it can benefit society more widely.

Whether trade generally (and not just trade liberalisation) benefits the poor also depends on domestic factors. For example, according to the UN's trade body, UNCTAD:

> "Not all countries which export manufactures have experienced export-accelerated industrialisation. Indeed, the more common experience, in which the growth of manufacturing exports is linked to integration into global production

> chains and assembly of imported inputs, is more likely to be associated with stagnant or even declining manufacturing output."[12]

The WTO's whole approach – which assumes that trade liberalisation is good for development – is therefore trumped because the benefits of trade liberalisation are far from automatic. The WTO's mandate is built on the push for progressive liberalisation – more and more liberalisation – and this, in turn, amounts to irreversible liberalisation.

In UNCTAD's view, "what the current approach does is to take trade liberalisation as a given and then see how to make poverty reduction goals compatible with it, rather than to make poverty reduction the priority and then ask how trade liberalisation might fit into this".[13]

ActionAid agrees with this view and believes that poor countries must have the right to pursue alternative policies – a right that they patently do not currently have.

The evidence mounts against the trade liberalisation model

The evidence against trade liberalisation, as a model to be pursued in all circumstances, is well documented. Consider the following recent findings:

- An analysis by UNCTAD showed that, in a sample of 36 countries classified according to their degree of trade 'restrictiveness' and 'openness' at the end of the 1990s, poverty rose both in those countries that adopted the most open trade regimes and in those that continued with the most closed regimes. "But in between these extremes there was a tendency for poverty to decline in those countries that had liberalised their trade regimes to a lesser extent, and for poverty to increase in those countries that had liberalised their trade regimes to a greater extent." The conclusion was that "from this evidence there is no basis for concluding that trade liberalisation, in the short run, reduces poverty or leads to a more virtuous trade-poverty relationship".[14]
- Another analysis of growth rates in developing countries between 1997 and 2001 showed that, of 108 countries studied, only 10 out of 35 classified as the 'most open' had high GDP growth and only 7 out of 36 countries classified as 'restrictive' had low GDP growth. There were 37 countries which had either high GDP growth with a 'restrictive' trade regime or low GDP growth with an 'open' trade regime.[15]
- One of the most influential pro-liberalisation trade analyses of recent years was conducted in 2001 by David Dollar and Aart Kraay. It sought to show that the developing countries that had opened up more to trade in recent years had increased economic growth more than those that had "remained closed". The two

[12] UNCTAD, *The Least Developed Countries Report 2004*, p. 84, www.unctad.org
[13] UNCTAD, *The Least Developed Countries Report 2004*, pp. 70-1, www.unctad.org
[14] UNCTAD, *The Least Developed Countries Report 2004*, p. 188, www.unctad.org
[15] UNCTAD, *The Least Developed Countries Report 2004*, p. 86, www.unctad.org

groups were called the 'globalisers' and the 'non-globalisers'. Yet this analysis has been heavily criticised. One counter-analysis, for example, demonstrated a close overlap between 'globalisers' and 'non-globalisers', and countries classified as 'least commodity-dependent' and 'most commodity-dependent', showing that those countries dependent on exporting a small number of primary commodities grew much more slowly than those less dependent on commodities. The analysis argued that Dollar and Kraay had highlighted the 'curse of primary commodity dependence' and not the benefits of participating in the global trading system.[16]

- The least developed countries have become poorer over the past two decades, with 80 per cent of their populations now living on $2 a day or less (and half living on $1 a day or less). Yet these countries have, at the same time, become highly integrated into the global economy, trading around 51 per cent of their GDP, a higher percentage than that traded by the richest countries (43 per cent).[17] However, while they have become increasingly globalised, these countries have seen their share of global trade fall from 3 per cent in 1954 to 0.68 per cent in 2004.[18]

- The growth rates of developing countries undergoing trade liberalisation cast further doubt on the benefits. During the 1960s and 1970s, when many countries practised policies of 'import substitution' regarded as heretical nowadays, per capita income in developing countries grew at around 3 per cent per year. In the 1990s, after more than a decade of trade liberalisation, average growth rates fell to 1.7 per cent.[19]

- A critical aspect of whether trade liberalisation will help or harm the poorest countries is whether the composition of their exports will change and enable them to diversify into exporting more dynamic products, and thus reducing their dependence on a few primary products. Evidence suggests that trade liberalisation will not aid them in this task, and that countries that have an undynamic export composition before liberalisation occurs, will retain an undynamic export structure after liberalisation has been implemented. In one study of 11 countries, 7 were losing market share in the pre-liberalisation period, and this rose to 8 in the post-liberalisation period. UNCTAD concludes that "the process of trade liberalisation in the LDCs has reinforced specialisation in commodity exports rather than promoting a shift to manufactured exports".[20]

- Other analyses have shown that trade liberalisation in developing countries tends to harm trade balances and balance of payments. In a study of developing

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[16] Cited in UNCTAD, *The Least Developed Countries Report 2004,* p. 82, www.unctad.org
[17] UNCTAD, *The Least Developed Countries Report 2004*, p. 106, www.unctad.org
[18] Lakshmi Puri, 'Towards a new "Marshall Plan" for least developed countries', *Trade, Poverty and Cross-cutting Development Issues, Study Series No.1*, UNCTAD, 2005, p. 2
[19] Ha-Joon Chang, 'Towards practical alternatives to prevailing trade policy', *South Bulletin*, 15 June 2005, p. 269, www.southcentre.org
[20] UNCTAD, *The Least Developed Countries Report 2004*, pp. 199, 213, www.unctad.org
[21] UNCTAD, *The Least Developed Countries Report 2004*, pp. 201-2, www.unctad.org
[22] Cited in Yilmaz Akyuz, 'WTO's NAMA negotiations: Policy space at stake', *South Bulletin*, 30 July 2005, p. 364, www.southcentre.org

countries generally, exports increased after liberalisation by 2 per cent but imports rose by 6 per cent. Trade liberalisation worsened the trade balance by over 2 per cent of GDP and the current account by 0.8 per cent of GDP. The trade balances and current accounts of all the regions analysed – Africa, Asia and Latin America – deteriorated.[21]

- Indeed, at a time when developing countries are being told of the wondrous welfare gains that await them following further liberalisation, it is worth taking stock of the gains made under the previous round of trade liberalisation negotiations, the Uruguay Round. At the time, estimates from rich countries and multilateral institutions often suggested gains to the tune of hundreds of billions of dollars. Yet one recent estimate suggest the gains were actually in the region of \$75 billion, of which almost \$70 billion went to developed countries and \$5 billion to Newly Industrialised Countries such as Singapore, South Korea and Taiwan. Developing countries as a group saw no gains.[22]

This evidence suggests that the case for promoting trade liberalisation as a 'one-size-fits-all' model is exceedingly thin. Rather, such a model is being promoted for ideological reasons and because it benefits rich countries' corporations by opening foreign markets to them.

In fact, the trade liberalisation model is not even based on a rational analysis of what has worked in the past. There is a very large literature going back at least a decade showing that the post-war world's most successful cases of development – those in East Asia, and especially Taiwan and South Korea – all rejected policies to completely open their economies at key stages in their development.[23] These countries often protected their domestic industries for limited periods and with clear performance requirements, often tended to give preference to domestic companies on the grounds of promoting long-term industrial development, and actively intervened in the economy through policies of regulation and investment financing. In a report for UNRISD, the UN's research organisation, K. Jomo, Professor of Economics at the University of Malaya, Kuala Lumpur, notes that:

> **"There is now considerable evidence that high growth in East Asia was due to successful and appropriate developmental public policy interventions rather than economic liberalisation. Clearly then, South Korea and Taiwan PoC have not only achieved far more in terms of growth, industrialisation and structural change than Thailand, Indonesia and Malaysia but with significantly lower inequality as well. The better economic performances of the first two were due to more effective government interventions, especially selective industrial policy, while lower inequality was partly due to significant asset (especially land)**

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[23] See, for example, Ajit Singh, 'How did East Asia grow so fast?', *UNCTAD Bulletin*, May 1995, pp. 4-14; Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2002.

redistribution before the high growth period, full employment and social development to ensure support for developmental public policies."[24]

A key point about successful development in East Asia was that these countries were not subjected to 'big bang' or 'shock' liberalisation. Rather, their industrialisation had long preceded the liberalisation of the 1980s and had advanced on the basis of a wide range of trade and industrial policies specifically designed to encourage the emergence of higher value-added activities and the production of high-tech and capital intensive products. The strategies were outward-oriented but without adopting wholesale liberalisation. In particular, foreign investment was strategically managed to ensure it supported domestic efforts to continue strengthening and upgrading domestic productive capacities.[25]

The fact that rich developed countries did not pursue the free trade model at key stages in their own development, and promoted the protection of their infant industries rather than opening them up to full global competition, has also been well analysed by academics, and is considered further in chapter 3 of this report. The current push by rich countries to deepen trade liberalisation in poor countries therefore appears more a strategy of preventing development and countering competitors.

A senior World Bank official once noted that "the poor in developing countries are often better off when their governments ignore the policy advice of the International Monetary Fund and World Bank".[26] Similarly, the Vice President of Japan's Ministry of International Trade and Industry once remarked that, if his country had adopted free trade, **"it would have almost permanently been unable to break away from the Asian pattern of stagnation and poverty".[27]**

A study for UNICEF that identified ten 'high achieving' developing countries also failed to advance the cause of trade liberalisation advocates.

Costa Rica, Cuba, Barbados, Botswana, Zimbabwe, Mauritius, the Indian state of Kerala, Sri Lanka, South Korea and Malaysia were recognised as having done relatively well in promoting development and eradicating poverty. The study noted that, in these countries, the health and educational advances that took nearly 200 years to accomplish in the developed countries "were achieved within a generation or so". The key reasons included "the pre-eminent role of the state in ensuring that the vast majority of the population had access to basic social services"; relatively high spending on social services; giving expression to the 'voice' of the people (in all

[24] K. Jomo, *Globalisation, Liberalisation and Equitable Development: Lessons from East Asia*, UNRISD, July 2003, p. 31
[25] Richard Kozul-Wright and Paul Rayment, *Globalisation Reloaded: An UNCTAD Perspective*, UNCTAD Discussion Paper No.167, pp. 15-16
[26] William Easterly, cited in K. Jomo, *Globalisation, Liberalisation and Equitable Development: Lessons from East Asia*, UNRISD, July 2003, p. 15
[27] Cited in Michael Barratt-Brown and Pauline Tiffen, *Short Changed: Africa and World Trade*, Pluto Press, London, 1992, p. 14

cases except South Korea); not giving priority to economic growth over social development; and regarding women as equal agents of change.[28]

The study did not specifically consider liberalisation of trade, but what is significant is that none of these countries adopted full trade liberalisation as a strategy, it did not feature as a major policy instrument (hence the likely reason it was not considered in the study) and most have thoroughly rejected such an approach.

And what of China and India's current experience of successfully reducing the poverty of some people? It could be argued that this demonstrates the success of the liberalisation model. China has, indeed, recently liberalised several areas of its economy as the price of accession to the WTO, but this does not constitute a 'big bang' reform, not least because it continues a process of gradual liberalisation over the past ten years and because China's liberalisation has come from a position of strength, not weakness. Moreover, China has resisted pressure to liberalise its currency market and capital account, and has enjoyed considerable effective depreciation of its currency, which has been a factor in facilitating adjustment to a more liberal trade regime and avoiding a sharp deterioration in the balance of payments.[29]

Meanwhile, in India, as Jayati Ghosh of Nehru University has shown, real GDP growth rates were already increasing in the 1980s, before the economic liberalisation reforms began in 1991. GDP growth was the same, at 5.6 per cent per year, in both the 1980-1990 and 1990-2000 periods. Growth since 1991, however, has been accompanied by increased inequality between the country's regions and between rich and poor, while the rate of decline in poverty overall has slowed. Ghosh notes that "increased income inequalities over this period have accentuated certain longer-term structural features of Indian society whereby more privileged groups have sought to perpetuate and increase their control over limited resources and channels of income generation in the economy. This in turn has meant the effective economic disenfranchisement of large numbers of people."

Furthermore, Ghosh notes that trade liberalisation has had a particular impact on farming communities and that "Indian agriculture has experienced a continuing crisis on an unprecedented scale".

The absence of minimal protection for Indian farmers in the face of competition from subsidised producers in developed countries, together with the shift away from cultivation of traditional staples in favour of cash crops, has produced a decline in food security and a decline in per capita grain consumption to levels not seen since the early 1950s.[30]

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[28] Santosh Mehrotra, *Integrating Economic and Social Policy: Good Practices from High-achieving Countries*, Innocenti Working Papers, No. 80, UNICEF, October 2000, www.unicef.org
[29] Yilmaz Akyuz, 'Trade, growth and industrialisation: Issues, experience and policy challenges', January 2005, p. 17
[30] Jayati Ghosh, 'Is India a success story of economic liberalisation?', *Christian Aid Discussion Paper*, May 2005

Special and differential treatment for developing countries

ActionAid argues that, based on the evidence presented above, developing countries must be allowed to promote policies that protect their economies from the ravages of global trade liberalisation.

But this 'right to protect' has been severely encroached on by successive bouts of liberalisation through the WTO and also through World Bank/IMF lending programmes to poor countries. For instance:

- their trade tariffs have been cut, especially on agricultural products
- their ability to provide domestic agricultural and industrial subsidies has been reduced (and, in some cases, eliminated)
- their ability to discriminate in favour of local as opposed to foreign investors has been reduced
- they have been unable to strengthen intellectual property rights, so natural resources, and indigenous knowledge and technology, have passed into the control of foreign companies.

Overall, progressive liberalisation has reduced the critical 'policy space' needed by the most vulnerable countries to promote national economic policies suited to their own circumstances.

Despite the fact that special and differential treatment for developing and least developed countries is formally enshrined in the WTO's agreements, and is explicit in the Doha agenda set at the 2001 ministerial meeting and in the July 2004 framework which sets the terms for the current negotiations, such special treatment has failed to materialise and has encountered a number of major problems. In particular:

- There has been a failure to implement existing agreements on special treatment, most notably due to opposition from the developed world.
- Special treatment is currently geared towards helping developing countries implement liberalisation commitments and conforming with WTO rules, not towards promoting development objectives.
- Current special treatment provisions no longer go deep enough for developing countries, especially in the face of the new push for ever-deeper liberalisation from rich countries.

Developing countries have long insisted that their ability to undertake new liberalisation commitments depends both on their ability to implement past commitments and on the impact of these commitments on their economies. Member countries had agreed in Doha that implementation issues would be "addressed as a matter of priority by the relevant WTO bodies", but progress has been very slow on all aspects of particular interest to developing countries, especially the review of provisions for developing countries facing difficulties in implementing trade agreements ('implementation issues'). Developed countries are still not willing to fully cooperate and address some of these issues, some of which date as far back as the 1980s. As a result, developing countries have been negotiating additional layers of liberalisation commitments while problems with existing agreements have not been properly addressed, much less resolved.

Declining policy space

International organisations and several prominent economists have been warning for many years now of the massive encroachment on policy space resulting from the WTO agreements:

- According to UNCTAD: "Pressures for greater openness, particularly in an uncertain economic environment and an era of dynamic structural change, have made it increasingly difficult for countries to pursue their own national policies for development and integration into the global economy."[31]
- According to the United Nations Development Programme: "The rapidly increasing multilateral agreements – the new rules – are highly binding on national governments and constrain domestic policy choices, including those critical for human development. They drive a convergence of policies in a world of enormous diversity in conditions – economic, social, ecological."[32]
- According to Ha-Joon Chang, an economist at Cambridge University: "Time is running out. Over the last couple of decades, the policy space available for the developing countries has shrunk dramatically. And if the developed countries have their way, it will shrink over the next decade or so to the extent that has not been seen since the days of imperialism, making industrialisation and economic development in the developing world all but impossible. Those who are truly concerned with development, both in the South and the North, need to take concerted action to prevent this disaster from happening."[33]

Blocking current proposals

Currently, WTO members are meant to be working to a mandate that requires them to strengthen special treatment provisions and make them, in the words of the July 2004 framework, "more precise, effective and operational".[34] But the opposite is happening. There formally remains on the table a list of 88 proposals for improved special and differential treatment, made mainly by African countries and the least developed countries, and which concern, among other things, changes to the agreements on services, agriculture and intellectual property. These proposals – which would go a long way to making trade rules much more development-oriented – have been largely ignored and de

[31] UNCTAD, *Trade and Development Report 2004*, p. 95, www.unctad.org
[32] UNDP, *Human Development Report 1999*, p. 35, http://hdr.undp.org/reports/global/1999/en
[33] Ha-Joon Chang, 'Towards practical alternatives to prevailing trade policy', *South Bulletin*, 15 June 2005, p. 271, www.southcentre.org
[34] The July 2004 framework is reproduced in *South Bulletin*, 30 July 2004, pp. 340-9, www.southcentre.org

facto rejected by developed countries, so much so that, currently, the least developed countries are proposing a list of only five areas for special treatment.

These include the demand that developed countries provide binding duty-free market access to exports from the least developed countries (LDCs), that developing countries be accorded further waivers from current WTO obligations, and that LDCs be given broader exemption from the WTO's agreement on investment (TRIMs). Even this short list is encountering significant opposition. The US is reportedly opposed to a binding commitment on exports from LDCs (suggesting that bilateral agreements are better suited to the task) and some Latin American countries are opposed to LDC demands for further WTO waivers, while developed countries generally are asking for more clarification on exemptions from the TRIMs agreement.[35]

Another current LDC proposal calls for a revision to the WTO's 'enabling clause' agreement to ensure that the "extent and pace of liberalisation shall be determined in consultation with the government" of LDCs, acknowledging that LDCs should not be required to undertake liberalisation measures that conflict with their development or financial needs. The most controversial part of this proposal is the suggestion that LDCs be allowed, if warranted by their economic and trade situation and stage of development, to make no tariff reductions in their agricultural or industrial sectors, and bind tariff rates at levels consistent with their needs.

However, it has been reported that "a number of developed countries, including the US, said that LDCs could not expect to make no commitments or receive a blanket perpetual exemption, as the objective of WTO membership was to integrate into the multilateral trading system". Sources at the recent negotiations in Geneva suggested: "The US, EU, Canada and Japan were unwilling to concede to such a comprehensive exemption owing to fears that this would create a precedent of exceptions to the rule and different treatment of different developing countries."

Furthermore, these discussions took place just a few days before many of the same countries gathered in Gleneagles for the G8 summit and expressed their support, in front of the world's media, for Africa's development and the right of poor countries to decide their own policies. The contrast between public relations and actual policies is sometimes very stark.

Developed countries are also refusing to implement existing special and differential treatment agreements until what they term the 'more advanced developing countries' graduate from receiving special treatment.[36] The concern is with countries such as Brazil, China and India, which are increasingly seen by the EU and US as competitors. ActionAid believes that these countries are still home to millions and millions of poor

[35] 'No results on S&D despite marathon negotiations', *BRIDGES Weekly Trade News Digest*, 27 July 2005, www.ictsd.org

[36] Focus on the Global South, 'The end of an illusion: WTO reform, global civil society and the road to Hong Kong', *Focus on Trade*, Issue No. 108, April 2005, www.focusweb.org

people. For instance, according to the Human Development Report 2005[37], Brazil is ranked 63 on the Human Development Index with 22.4 per cent of its population living below the $2 per day poverty line, while China is ranked 85 with 46.7 per cent of its population living in extreme poverty, followed by India, ranked 127, where 80 per cent of people live in extreme poverty. Therefore, these countries should still be eligible for special treatment.

ActionAid also believes that developing countries, and especially the least developed, already face a major crisis in terms of implementing current liberalisation commitments. Therefore, acceding to developed countries' current agenda of deepening liberalisation in agriculture, industrial products and services will erode their policy space still further and exacerbate the crisis.

The African group has also raised similar concerns in its recent letter to the WTO Trade Negotiating Committee. It states that **"the modalities should take into account the need for appropriate policy space that would allow African countries to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns."[38]**

[37] Human Development Report 2005. 'International Cooperation at a Cross Roads: Aid, trade and security in an unequal world', United Nations Development Program (UNDP), New York 10017, USA.
[38] African Group's letter to Pascal Lamy, Geneva, 8 November 2005.

Chapter 2

The food trade and the danger of further liberalisation

The current negotiations on agriculture at the WTO pose increasing threats to the hundreds of millions of people around the world dependent on farming for their livelihoods. The rich countries' agenda is very clear:

- *They are seeking new markets by pressing poor countries to further reduce tariff barriers to rich countries' exporters of farm produce. At the same time, they are resisting repeated calls from developing countries to exempt vital food crops from tariff reductions so that developing countries can protect themselves from import surges that undermine local production and can devastate farming communities.*
- *They have introduced a new category of 'sensitive products' into the negotiations to exempt a large proportion of their own imports from tariff cuts, thus further restricting exports from developing countries.*
- *They are seeking to maintain – and moreover, seeking new rules to expand – their domestic subsidies to their own farmers, which causes overproduction and dumping in developing countries. The recent offers from the EU and US to reduce their subsidies are nothing more than an illusion. ActionAid's estimates show that they would be able to maintain high subsidies.*

If this agenda goes on, the devastation already wrought by global trade rules on farmers around the world will worsen. It is no secret that the EU and the US are pushing for greater market access in developing countries as the price for them agreeing to eliminate export subsidies and reduce their domestic support to agriculture.[39] *In some circles, this could be regarded as the strong blackmailing the weak – but, to the EU and US, it is simply global diplomatic bargaining, regardless of the human cost.*

"With 95 percent of our potential customers overseas, and the US market itself mature, we must secure access to the customers of the world to maintain growing profits… Our goal in the Doha negotiations is to help level the playing field for our agriculture producers by opening new markets and facilitating the most efficient movement of goods across borders… The expansion of global income through the adoption of market-oriented policies will open markets throughout the world, to the great benefit of the US farm community… Countries which have blocked US access to their markets, specifically through high tariffs, need to show they are serious about opening markets in the negotiations."

US Trade Representative Robert Portman, 21 September 2005[40]

[39] Anwarul Hoda, *Special Products: Options for Negotiating Modalities*, ICTSD, Geneva, June 2005, draft, p. 14

[40] Statement before the Senate Committee on Agriculture, Nutrition and Forestry, http://www.ustr.gov/Trade_Sectors/Agriculture/Agriculture_Recent_Updates/Section_Index.html

The effects of trade liberalisation in agriculture

Under the WTO's rules, agricultural products are treated like any other tradeable commodity, but, for millions and millions of people, agriculture is much more than this – it is their lifeline. An estimated 1.3 billion people around the world work in agriculture and another 1.5 billion depend on the sector.

Over half the entire population in developing countries works in agriculture, a figure that rises to 85 per cent in some of the poorest countries. Agriculture is the major source of income and food security for the majority of the world's poor people. This is particularly the case for women who tend to be mainly responsible for feeding the family and who are estimated to produce 60-80 per cent of food grown in most developing countries.

Agriculture is critical to reducing poverty, because growth in the smallholder economy is the most effective way of alleviating rural poverty. Increases in smallholders' incomes reduce poverty in the wider economy by increasing local demand for goods and services such as transport, construction and farm labour. A vibrant smallholder economy, together with equitable land distribution, acts as the cornerstone for broader-based economic growth.

Therefore, in most developing countries, agriculture must play a central role in any effective national development strategy. Few countries have developed strong industrial economies without first achieving growth in smallholder agriculture. Over the last 300 years, almost all cases of mass poverty reduction started with rises in income due to higher productivity on small-scale farms.

It is therefore hard to exaggerate how critical it is for poor countries to have trade agreements that nurture their agricultural sectors. But the current reality is the opposite. As a recent ActionAid report documented, agricultural trade is controlled – and increasingly so – by a handful of transnational corporations based in the rich world.[41]

Global trade agreements have been set largely in the interests of these corporations. Developing countries' agricultural sectors have been opened up to cheaper imports, and many of them have been forced to reduce their domestic support to agriculture, while the prices of commodities – on which many of the poorest countries depend – have all but collapsed in the past 20 years.

[41] ActionAid International, *Power Hungry: Six Reasons to Regulate Global Food Corporations*, 2005, www.actionaid.org

South Africa: End of subsidies sees 14 per cent of farm workforce lose jobs

In South Africa, deregulation of the agricultural sector started in the 1980s as a result of World Bank/IMF conditions and advice, and the country's participation in the WTO's Agreement on Agriculture. The free market was placed at the centre of policy with the state 'assisting' it to deliver developmental goods and services such as land and infrastructure. Yet the vast majority of small-scale farmers remain trapped in poverty.

The elimination of subsidies, for instance, forced many marginal farmers, mainly in maize production, out of business. There was a 21 per cent drop in the number of commercial farming units between 1993 and 2002.[42] At the same time, there was a 14 per cent reduction in the farm workforce (permanent and casual), and this came hard on the heels of a 12 per cent drop in employment between 1988 and 1992.[43]

Liberalisation has also resulted in greater concentration of power in agricultural and food commodity chains. Global corporations – such as Monsanto in maize, wheat and vegetables, Syngenta in maize and vegetables, and Delta & Pine Land in cotton – increasingly dominate seed markets.[44]

Overall, deregulation and liberalisation has favoured export-oriented farmers in niche markets, especially in the fruit and wine sectors, but also in smaller sectors such as cut flowers and wool. However, other sectors, like maize, have become far more volatile as markets are destabilised by a combination of a sharply fluctuating currency, declining commodity prices and global overproduction in most major agricultural commodities.

Furthermore, food prices have risen sharply in the past few years, mainly because of the volatile exchange rate, and the poorest households have been the most affected. In the late 1990s, South Africa found itself sitting on a three million tonne maize surplus while more than 14 million people didn't have sufficient food to eat.[45]

Southern Africa Partnership Programme, ActionAid, *WTO, services and experiences of water privatisation in South Africa*, 2005

At the same time, massive agricultural protection remains in industrialised countries, keeping out many developing countries' exports and leading to the 'dumping' of rich countries' produce on world markets, depressing prices and undermining local producers

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[42] Statistics South Africa, *Census of Commercial Agriculture 2002: Financial and production statistics*. Report 11-02-01, 2002; StatsSA/National Department of Agriculture, Pretoria, p. 1

[43] Farmworkers Research & Resource Project, *Farm Labour Review: Farmworkers and Agriculture in South Africa,* FRRP, Johannesburg, 1996, p. 11

[44] See African Centre for Biosafety, *A Profile of Monsanto in South Africa*, 2005, pp. 17-18, http://www.biosafetyafrica.net/briefing_papers.htm

[45] Cynthia Ngijima, Department of Health presentation to the South African Human Rights Commission's International Consultative Conference on Food Security and Nutrition as Human Rights, Randburg, 25-27 March 1999

If the world were to consciously design an unfair food trade system to harm the most vulnerable, it would be hard to match the present one.

A permanent feature of the predicament faced by developing countries over the past two decades has been the flooding of local agricultural markets by cheap imports from abroad, especially – but not exclusively – of subsidised produce from developed countries. The removal of tariffs in developing countries as a result of trade liberalisation commitments has seriously worsened the situation and the price has been paid by the poor.

The effects have varied from serious to devastating, and have been well documented in recent years by NGOs such as ActionAid. Imports of cheap, subsidised US rice into Haiti, for example, have thrown thousands of poor farmers out of business and forced many people off their land. In Jamaica, 3,000 poor dairy farmers are being put out of business from 5,500 heavily subsidised tonnes of European milk dumped on their market. Other examples include imports of chickens to West Africa, dairy products to Kenya and tomato paste to Senegal, as well as other products to Sri Lanka, Guyana, Trinidad and Tobago, the Philippines, Mexico, the Gambia and Brazil, to name but a few.[46]

The Gambia: chicken surge forces poultry farmers out of business

The Gambia is one of Africa's poorest countries with an average annual per capita income of just $320. A variety of agricultural products are currently flooding into the market, depressing prices and harming local producers. Chicken imports, for instance, shot up tenfold during the period 1995-2003, with most coming from Germany, the Netherlands and Belgium. At the same time, import tariffs on poultry were reduced, from 28 per cent in 1998 to 18 per cent in 2004.

Kombo Poultry Farm in Kololi is just one of many that has been forced to close. The farm's former manager, Mohammed Hydara, says that when they opened in 1987 they had three poultry houses, each housing 3,000 birds. The farm was modern and professional, he says, and the business was successful for its first few years. He hoped to put an egg on every table, but this dream faded as import tariffs were lowered and cheap poultry products flooded into the country following the implementation of IMF/World Bank-supervised trade liberalisation. Kombo Poultry Farm closed in 2002 and the owner took up cassava farming instead.

Unfortunately, it is the same story for the groundnut industry, as well as the milk, rice and fishing industries. Plummeting world market price for groundnuts, for instance,

[46] Mark Curtis, *Trade for Life: Making Trade Work for Poor People,* Christian Aid, London, 2001, pp. 41-2, 153-7; Oxfam, *Europe's Double Standards: How the EU should reform its trade policies with the developing world*, Oxfam briefing paper No. 22, 2002, p. 11, www.oxfam.org; Mario Jales, *Tariff Reduction, Special Products and Special Safeguards: An analysis of the agricultural tariff structures of G-33 countries*, ICTSD, Geneva, June 2005, draft, p. 31

together with the rising costs of supplies like fertilisers, have made many farmers worse off. Meanwhile, liberalisation has brought cheaper vegetable oils into the country, replacing groundnut oil in the domestic market.

Subsidised milk from Europe is also being imported into the country undermining local producers while the government has allowed cheap rice to be imported with a zero tariff. Rice imports more than doubled between 1990 and 2002 as consumers preferred to buy the cheaper imported rice.

ActionAid The Gambia, *Effects of Trade Liberalization on Agriculture and Rural Farmers*, 2005

Dumping – the selling of products at below the costs of production – continues to wreak havoc in much of the developing world. In 2003, for instance, dumping by US-based food and agribusiness companies meant that wheat was exported at an average price of 28 per cent below the cost of production, while soybeans and corn were exported at 10 per cent below the cost of production, cotton at 47 per cent and rice at 26 per cent.[47]

Since the WTO was established, US-based companies have steadily dumped high levels of their five most exported agricultural commodities. The effects are twofold: below-cost imports drive developing countries' farmers out of local markets, while those farmers who sell their products to exporters find their market share undermined by a depressed world price. WTO rules formally prohibit dumping but the practice is common, and the rules make it complicated and expensive for poor countries to establish grounds for anti-dumping actions.[48]

The UN's Food and Agricultural Organisation (FAO) notes that: "Since the 1980s, with trade reforms and unilateral trade liberalisation in many developing countries, there have been more frequent import surges by country and by product."[49] Indeed, the FAO has identified a massive 1,217 cases of import surges on just 8 commodities in 28 developing countries for the period 1984-2000. An import surge means either that the volume of imported goods rises sharply or that import prices reduce sharply so that they undermine or threaten to undermine domestic production. A surge is defined as a 20 per cent deviation from a five-year average of imports. Since this analysis is highly selective by product and also considers only a small proportion of all developing countries, the real extent of import surges must be much greater. From the sample, the countries especially affected were Guinea, Malawi, Niger, the Philippines and Tanzania.[50]

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[47] IATP, 'A decade of dumping on world agricultural markets', *South Bulletin*, 30 March 2005, pp. 127-9, www.southcentre.org
[48] IATP, 'A decade of dumping on world agricultural markets', *South Bulletin*, 30 March 2005, pp. 127-9, www.southcentre.org
[49] FAO, 'The need for special safeguards for developing countries', http://www.fao.org//docrep/005/y4852e/y4852e05.htm
[50] FAO, *A Special Safeguard Mechanism for Developing Countries*, FAO Trade Policy Technical Notes No. 9, undated, http://www.fao.org/trade/policy_en.asp

Developing countries have few mechanisms, in practice, to keep such imports out, because the process is either expensive, or onerous, or politically difficult. The fact is that, as the FAO has pointed out: “Developing countries lack resources to protect producers from artificially low import prices. The potential for raising duties is limited and will decline with lower bound rates.”[51]

Ghana: Farmers plead for protection from cheap imports

Farming is a way of life and a means of survival for the two million people living in Ghana’s poorest regions – Northern, Upper East and Upper West. Crops like tomatoes, rice, okra and onions are grown, accounting for 90 per cent of employment and income. However, the relaxing of trade restrictions in the 1980s and 1990s saw cheap rice flood into the country as well as heavily subsidised rice from the EU.

John Ayariga, a rice farmer from fertile Bolgatanga in the Upper East region, explains what has happened: “I have been a farmer for 19 years. I started farming at age 12. Rice farming is no longer lucrative because imported rice is cheaper than locally produced rice. We cannot make ends meet… The field we used to plant rice in is now lying fallow and is being used to play football. We are being forced to compete in foreign markets – it’s like our under-20 football team facing Manchester United. Tell me, is this equal? Is this fair? It is a big shame to be a farmer now. There’s no pride in being a farmer now.”

Rice farmers were further hit when the state stopped subsidising things like fertiliser, insecticides and seeds. Madam Adombilla Awelgya, a 47-year-old mother of four, was one of those affected: “The high cost of farming inputs makes it difficult to make ends meet. There is no money after you have paid for everything at a very high cost. We are appealing to the government to support farmers, especially women like myself, with credit and processing machinery. In the absence of a mechanised thresher, we thresh the rice on the floor and this comes with small stones, which makes it unattractive to consumers. I am fed up and I feel like giving up...”

Tomato farming has been similarly affected. Ayene Adda, who has been in the business for 20 years, agrees with Madam Awelgya: “The government must intervene. That must be the big idea and the right thing to do. The government must move in to help us … reduce the effect of imported tomato and tomato products on local production.”

ActionAid Ghana, *Voices of the poor on trade liberalisation in Ghana*, 2005.

[51] FAO, *A Special Safeguard Mechanism for Developing Countries*, FAO Trade Policy Technical Notes No. 9, undated, http://www.fao.org/trade/policy_en.asp

Current negotiations

The current trade negotiations on agriculture in Geneva are divided into three areas – market access (i.e. tariff reductions), domestic support and export subsidies. They are subject to such fierce disagreement, especially on tariff reductions, that the talks have effectively been stalled for some time. All three negotiating areas currently contain dangers and threats for developing countries. Essentially, developed countries are pushing for further market access to developing countries' markets while a date for abolishing their export subsidies has not been set and there is little movement on substantially reducing their domestic support to farmers.

Furthermore the EU, in particular, is holding back on reforms to agriculture until developing countries sign up to liberalisation in the areas of industrial products and services. This strategy is explicit. EU Trade Commissioner Peter Mandelson stated in October 2005, for example, that:

> **"When the crunch comes, the EU's final negotiating flexibility in agriculture will be heavily influenced by how ambitious all WTO members are on NAMA and services. And there will certainly be no deal on agriculture unless and until there is a balanced outcome across the board."**[52]

Agricultural market access

The WTO's July 2004 framework, which sets the terms for the current negotiations, calls for "substantial overall tariff reductions" and states that "progressivity in tariff reductions will be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products. Substantial improvements in market access will be achieved for all products." The negotiations on market access are not only the most complex but they are also in the least advanced stage, with the most contentious issue being the structure for tariff reduction. Wide divisions persist between high-tariff countries (such as the EU) and the net food importers, and major agricultural exporters such as the US and the Cairns Group.[53]

The danger is that developing countries will be required to make greater cuts in their agricultural tariffs, further reducing a potentially vital policy tool to support farmers (especially given the institutional and financial constraints to provide other types of support to agriculture). The consequences of reducing tariffs and allowing cheap imports to flood markets have been considered above.

The July framework, for instance, suggests that developing countries may be required to make deeper tariff reductions than developed countries (i.e. "through deeper cuts in higher tariffs"). It is likely that those developing countries that took the option of

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[52] Peter Mandelson, 'EU conditional negotiating proposals', statement at WTO Doha Round Informal Ministerial, 10 October 2005, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_2005_en.cfm
[53] A group of 17 leading agricultural exporters from the developed and developing world

imposing tariff ceilings[54] during the Uruguay Round of trade negotiations may now be penalised by being forced, as required by the tiered formula, to undertake the highest cuts across all their tariffs.

Who gains the most from further liberalisation?

Despite the effects of food trade liberalisation, rich countries want to push on. It is not hard to see why. The prize for rich countries' agribusiness corporations for achieving deeper trade liberalisation is shown in recent studies. One recent simulation by UNCTAD and the FAO of the effects of global agricultural trade liberalisation suggests that "most of the benefits from liberalisation accrue to developed countries". Developing countries as a group gain overall, "but those gains are small and unevenly distributed" while net-food importing developing countries "tend to lose because of higher world prices".[55]

Rich countries' governments are constantly claiming that developing countries stand to gain significantly – and sometimes, they claim, the most – from global trade liberalisation. But, in reality, the opposite is the case, as a recent World Bank study shows. This study provides very useful counter-evidence, showing that the primary gains from trade liberalisation for developing countries come if rich countries liberalise their agricultural trade, but developing countries do not. The Bank's figures suggest that if global agricultural trade is completely liberalised, developing countries would gain by $129 billion and rich countries by $137 billion. However, if liberalisation is restricted to rich countries only, developing countries would gain by $142 billion (due to their net trade balance as exports rise over imports), and rich countries would lose $142 billion. But low income countries' gains would be doubled under this scenario: they would gain by $10 billion with global liberalisation but by $21 billion if only rich countries liberalised.[56] Based on these figures, poor countries clearly won't gain the most from global trade liberalisation, despite what rich countries say. Most importantly, these figures show why the right to protect is crucial for the poorest countries.

Furthermore, other proposals being discussed in the negotiations insist on the harmonisation of tariffs across countries, which could also mean that developing countries have to make the biggest cuts. The G-20 group of countries,[57] who represent 65 per cent of the world's population, has however called for developing countries to make

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[54] Tariff ceilings refer to the option of binding all tariffs at the same relatively high level such as 100 or 150 per cent.
[55] Ralf Peters and David Vanzetti, *Shifting Sands: Searching for a compromise in the WTO negotiations on agriculture*, Policy Issues in International Trade and Commodities, Study Series No.23, UNCTAD, 2004, www.unctad.org
[56] World Bank, 'Global agricultural reform: What is at stake?', *Global Agricultural Trade and Developing Countries*, Washington DC, 2005, pp. 121-3
[57] A group of 21 developing countries as of November 1, 2005: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe

"lesser reduction commitments than developed countries", with exemptions for the least developed.[58]

The July framework also introduces a new category of 'sensitive products', stating that "members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive". This came about as a result of pressure from developed countries, especially the EU, Switzerland, Japan etc, to continue to protect their economies from several key developing country exports. It is thus a kind of special treatment for developed countries! It represents a deepening of protectionism while the same countries call for deeper tariff cuts from developing countries. It is likely to mean that developed countries can hang on to high import tariffs on certain products, possibly those such as sugar, dairy and meat products that are so heavily dumped in developing countries' markets.

Domestic support

The July framework states that each country "will make a substantial reduction in the overall level of its trade-distorting support from bound levels" (except least developed countries, which are exempt from reduction commitments). It also states that those countries with higher levels of support "will make greater overall reductions in order to achieve a harmonising result".

The G-33 group of countries, which currently consists of 44 developing and least developed countries,[59] are opposing reductions in developing countries' 'de minimis' domestic support to agriculture (i.e. the threshold below which spending on domestic support is liable to be reduced) on the grounds that such support "constitutes a fundamental policy instrument in supporting small and resource poor farmers and in addressing food security, livelihood security and rural development". This support, they say, is "one of the few avenues they currently have to provide support to their agricultural sectors in a WTO-compatible manner".[60]

The March 2005 'Delhi declaration' of the G-20 group of countries also made the call for no reductions in developing countries' de minimis support to agriculture, stating that "the amounts of support in developing countries are insignificant when compared to those in developed countries".[61]

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[58] G-20, *New Delhi Declaration*, March 2005, para 19, http://www.twnside.org.sg/title2/twninfo190.htm
[59] Members of G-33 as of 1 November 2005: Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Cote d'Ivoire, Congo, Cuba, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Mauritius, Mongolia, Montserrat, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, the Philippines, Peru, Saint Kitts, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe
[60] 'G-33 ministerial communiqué: Food and livelihood security vital', in *South Bulletin*, 30 June 2005, p. 311, www.southcentre.org
[61] 'G-33 ministerial communiqué: Food and livelihood security vital', in *South Bulletin*, 30 June 2005, pp. 309-11, www.southcentre.org

The G-20 group has suggested that domestic subsidies be classified into four different bands which would then be subject to different cuts. For instance, countries such as the EU would be placed in the highest band. The proposal also specifies that developing countries would make less than two thirds of the cuts that would be required of developed countries in the same category.[62]

The EU and US claim to have cut their domestic subsidies over the years but, in reality, there has been no substantial reduction. Rather, existing support has merely been re-categorised and, since the Uruguay Round started in 1986, overall agricultural support in developed countries has remained at around $250 billion per year.[63] A US proposal in early October 2005 was widely trumpeted by officials as involving substantial cuts to domestic support. Yet closer analysis shows that the proposal would result in negligible cuts to the subsidies paid to US farmers while also calling for developing countries to cut their agricultural tariffs more than developed countries. Argentina's ambassador to the WTO suggested that the proposal could even mean that US subsidies actually increased.[64]

The July framework also expands the ability of developed countries to support their own farmers. Developed countries have managed to change the criteria that permit them to provide support to their farmers under the 'blue box'.[65] This will allow them to shift their domestic support arrangements from one box to another, and mean that their overall level of domestic support will not decline. This was done mainly at the behest of the US, which wants to shield its 'countercyclical' payments to farmers.[66] Oxfam estimates that such 'box-shifting' would allow the US to increase its trade-distorting support by $7.9 billion a year from current levels, and the EU by €28.8 billion a year.[67]

Attempts by other WTO countries to establish limits on such flexibilities have been strongly opposed by the US to the point that this issue has become one of the stumbling blocks for progress in the negotiations. It has been reported that the US is linking a possible tightening of criteria for the blue box to concessions by others in the market access negotiations.[68]

In October, the US and EU put forward proposals to cut their domestic subsidies. They offered to cut them by 60 per cent and 70 per cent respectively. However, according to ActionAid's estimates, the US currently gives $25 billion a year in farm subsidies, but, after implementing their current proposal, they would still give $17-27 billion a year.

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[62] 'Clouds over agriculture negotiations prior to Dalian meet', *BRIDGES Weekly Trade News Digest,* 13 July 2005, www.ictsd.org
[63] Oxfam, *A Round for Free: How rich countries are getting a free ride on agricultural subsidies at the WTO*, Oxfam Briefing Paper No. 76, 15 June 2005, p. 3, www.oxfam.org
[64] Tetteh Hormeku, 'US agriculture proposal criticised as inadequate and ignoring SDT for developing countries', TWN Info Service, 15 October 2005, www.twnside.org.sg
[65] Domestic support programmes that are linked to production-limiting programmes; for example, where the level of payments is based on fixed areas and yields or per head of livestock.
[66] Subsidies paid to producers when commodity prices fall below specific levels
[67] Oxfam, *A Round for Free: How rich countries are getting a free ride on agricultural subsidies at the WTO*, Oxfam Briefing Paper No. 76, 15 June 2005, p. 4, www.oxfam.org
[68] 'Agriculture: Following July stalemate, intense negotiations expected in lead-up to Hong Kong', *BRIDGES Weekly Trade News Digest*, 3 August 2005, www.ictsd.org

Likewise, the EU currently gives around €64 billion annually. Under its current proposal it could still give €55-58 billion. So there is no real reduction in subsidies.

Meanwhile, there are currently no restrictions on the amount of resources that countries can devote to payments to their farmers through another domestic support mechanism, the 'green box'.[69] The US and the EU, who are major exporters of agricultural products, have therefore significantly increased the use of this category of support. Developing countries have pressed for a review of the criteria for allowing domestic support in the green box, and are proposing how the criteria should be modified.

The EU's desire to maintain the status quo can be attributed to fears that changes to green box criteria could jeopardise the recent reforms of the Common Agriculture Policy (CAP) under which the EU shifted a significant part of its support to agriculture to the green box. For the US, payments under the green box already represent a large proportion of its support to agriculture, so changes in the criteria would also lead to significant modifications in its system of support.

The EU/US strategy is in direct defiance of the Doha declaration and the July framework's provision for reductions in domestic support. At the same time, developing countries have unilaterally undertaken significant liberalisation measures in their agriculture sectors, and sometimes many times over, as part of the structural adjustment programmes demanded by the World Bank and IMF.

Export subsidies

On export subsidies, the Doha declaration agreed a "reduction of, with a view to phasing out, all forms of export subsidies". Nearly four years later, the EU, the major user of export subsidies, has so far refused to set an end date for agreeing to abolish them. The US has proposed eliminating them in five years and developing countries have also stated that "an early agreement would inject new momentum to the agriculture negotiations and make progress easier on other fronts".[70]

The EU has put forward several conditions for eliminating export subsidies. These include proposals that all countries agree to "parallel elimination" not only of export subsidies but also of "all forms" of export subsidies such as export credits, and that progress in this area is linked to developing countries' movement on liberalisation in industrial products and services.[71]

Subsidy levels remain massive and are partly hidden. The US, for example, provides 200 times more export support than it declares, equivalent to $6.6 billion a year. The EU pays

[69] Support payments to farmers that are deemed non-trade distorting and thus exempt from reduction commitments
[70] 'G-33 ministerial communiqué: Food and livelihood security vital', in *South Bulletin*, 30 June 2005, pp. 309-11, www.southcentre.org
[71] South Centre, 'State of play in agriculture negotiations: Country groupings' positions', July 2005, www.southcentre.org

out the equivalent of $5.2 billion a year.[72] The failure to end export subsidies ensures that dumping continues.

West Africa: the cotton dispute

The cotton dispute at the WTO is one of the clearest illustrations of the lack of willingness of rich countries to establish fair trade rules. This dispute pits farmers from some of the world's poorest countries against the governments and business lobbies of the world's richest nations.

Cotton constitutes between 50 and 80 per cent of exports from West African states such as Mali, Benin, Togo, Chad and Burkina Faso, and more than 10 million people in the region rely on cotton for their livelihoods. Production costs are amongst the lowest in the world, potentially making West African producers the most competitive global players.

However, subsidies paid by the US and EU to their cotton farmers are distorting world prices, preventing West African producers from exploiting their comparative advantage. According to the World Bank estimate the cut in the US cotton subsidies would increase revenue gains of $250 million a year for African farmers.[73]

African countries have been fighting for justice for the last few years. The principle of giving special treatment to cotton because of its impact on poverty was accepted before the Cancun ministerial meeting in September 2003, but little progress has been made since then.

Some progress was made in June 2004 when the WTO ruled in favour of Brazil in its dispute over US cotton subsidies, and George W. Bush said at a recent G8 meeting that the US would reduce its subsidies. However, based on the figures given by the US Department of Agriculture, ActionAid estimates that US cotton exports will fall by as little as 1.3-1.7 per cent even if Bush's proposal is implemented.

Meanwhile, West African governments and farmers' organisations have continued to make strong demands for the elimination of cotton subsidies and for the special treatment of cotton. Chad's Minister of Trade and Industry, Mrs Ngarmbatina Soukate, has stressed that they need to see real, tangible progress in resolving the dispute: "We don't want declarations, we need something concrete to give to our farmers… It is our life."[74]

[72] Oxfam, *A Round for Free: How rich countries are getting a free ride on agricultural subsidies at the WTO*, Oxfam Briefing Paper No. 76, 15 June 2005, p. 3, www.oxfam.org
[73] Cited in 'US Cotton Subsidies: Killing farmers and poisoning consumers and the Earth', 2003, http://www.organicconsumers.org/clothes/willallen011504.cfm
[74] Tetteh Hormeku, 'African cotton countries demand concrete results at Hong Kong', *South-North Development Monitor*, e-newsletter SUNS #5898, 20 October 2005, www.sunsonline.org

Special and differential treatment

The July framework states that special and differential treatment for developing members is "an integral part of the WTO agreements", and makes clear that the least developed countries are exempt from being required to reduce tariffs and domestic support. Furthermore, it states that it recalls the agreement at Doha to review all the special treatment provisions "with a view to strengthening them and making them more precise, effective and operational". But deepening special treatment is simply not happening, mainly due to blocking by developed countries.

The July framework states that developing countries will be able to "designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs". It also states that a Special Safeguard Mechanism (SSM) will be established for use by developing countries. Yet in the year since these commitments were made, little progress has been achieved in establishing such mechanisms.

In June 2005, the G-33 group issued a communiqué calling for "more meaningful special and differential treatment" in the negotiations and for a framework on special products and an SSM to be agreed by the Hong Kong ministerial. They stated that "products that meet the criteria of food security, livelihood security and rural development shall be designated as special products", and that it should be for individual countries to decide what these are.

The G-33 also said that these products should be exempt from tariff reduction commitments and must have access to the SSM. The latter should be available to all developing countries and would "provide more operationally effective remedy for developing countries against import surges and price depressions". The SSM should be available, the communiqué said, to all agricultural products and would be invoked if the volume of imports of the product concerned exceeds the average volume of imports of the preceding three years, or if the price of the imports falls below the monthly average over the previous three years, in which case a duty or quantitative restrictions could be applied for a maximum of a year.[75]

The response to this proposal by rich countries is instructive. According to various reports, the US and EU, along with New Zealand, Australia, Thailand, Malaysia, Chile, Argentina and Colombia, have all voiced their concern that the bigger picture of liberalisation and market access would be watered down. They have argued for a restriction in the number of special products, while the US and EU are also opposed to the exemption of special products from tariff reductions. New Zealand wants to limit the

[75] 'G-33 ministerial communiqué: Food and livelihood security vital', in *South Bulletin*, 30 June 2005, pp. 309-11, www.southcentre.org

number of countries that could use the SSM[76] while other countries have argued to limit special products to crops grown by subsistence farmers living on less than $1 a day.[77]

The US is strongly opposed to the SSM and wants to limit its scope and flexibility as much as possible. Indeed, the US has been arguing that the demand for an SSM duplicates the demand for special products. The G-33 has countered that special products are a longer-term exemption from liberalisation commitments whereas the SSM is a short-term mechanism to help developing countries cope with fluctuations in prices or import volumes.[78]

Why protection against import surges is critical: the case of Ghana

ActionAid's research in Ghana illustrates the vital need for poor countries to have better measures to protect themselves against cheap imports that can undermine local farmers. High levels of rice imports in recent years have meant a drop in income for domestic rice producers. In 2002, for example, 66 per cent of farmers had negative net returns from rice production. The following year 19 per cent experienced negative returns while 47 per cent broke even. In 2004, falling prices of imported rice again resulted in around 66 per cent seeing a loss in income.

Since rice is both a staple food crop and an income earner for many poor people in Ghana, the effect of cheaper imports can be devastating, with losses in income leading directly to hunger during the lean season. In northern Ghana, for example, during the period of food shortages from May to July, two-thirds of households had only one meal a day.

ActionAid Ghana, *Abandoned Rice Fields: Import surge study in Ghana*, 2005

The EU is believed to be generally supportive of the SSM in principle, but not in its currently proposed form. It believes the mechanism should be used to deal with import surges only (and not price depressions) and should not be available for all agricultural products (only a few, to be negotiated). Developing countries are thus under a lot of pressure to minimise the scope of special products and the SSM.

Moreover, the issues of Special Products and the SSM have been relegated to the sidelines in the current negotiations. The G-33 has recently highlighted its dissatisfaction with this, saying in a letter to the WTO that it is "increasingly concerned that SDT [Special and Differential Treatment] issues have not been given the full attention that

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[76] 'Group of 33 submits proposals on special products and special safeguard mechanism in agriculture', Third World Network info service, 14 June 2005, www.twnside.org.sg; see also South Centre, 'State of play in agriculture negotiations: Country groupings' positions', July 2005, www.southcentre.org
[77] 'Clouds over agriculture negotiations prior to Dalian meet', *BRIDGES Weekly Trade News Digest*, 13 July 2005, www.ictsd.org
[78] 'Busy agriculture week focuses on market access', *BRIDGES Weekly Trade News Digest,* 8 June 2005, www.ictsd.org

they deserve. The G-33 would like to underscore that the text to be presented to Ministers must ensure the same level of specificity on all issues, including the issues of SDT. For the G-33 specifically, it would be difficult to agree on any text, where the issues of SPs [Special Products] and SSM are not given the same level of specificity as others in the market access pillar."[79]

The Chair of the Geneva agriculture negotiations noted in June 2005 that "we cannot address" issues such as the SSM until "we have some basic structures in place in the domestic support and market access pillars".[80] The danger here is that developing countries will only see movement on such special treatment if they agree to further liberalisation commitments on market access and domestic support.

Meanwhile developed countries continue to enjoy a similar right. They have access to a special safeguard (SSG) that is easily invoked to protect their sectors from import surges. It means that the EU can use the SSG against 539 products, the US against 189 products, Canada against 150 products, and Australia against 10 products.

The FAO has argued, in line with developing countries' demands noted above, that it should be for countries themselves to decide which products to designate as special products, and also that the SSM should be available to all products. As to the counter-argument that the SSM is likely to be misused, the FAO notes that the experience of the SSG suggests this would not be the case, stating that: "It is unlikely that governments would actually behave that way because the application of an SSG is not without cost, administrative in particular."[81]

Various aspects of the special products and the SSM proposals still need to be detailed, such as whether there should be a definition of special products, what kind of tariff treatment developing countries should be allowed on these products, and what products should be eligible for the SSM.

A recent study by a former Deputy Director General of the WTO and current member of the Indian government's Planning Commission, Anwarul Hoda, makes a number of suggestions. In terms of identifying special products, the key issues include the importance of the product in the diet of the population, the level of self-sufficiency in these products, and the percentage of agricultural labour employed in the production of that product. Hoda also argues that "self selection" by developing countries themselves of special products "is the only viable option" although this is likely to be part of a broader multilateral package on agricultural trade. He further argues that exemptions of special products from tariff reductions should be considered and that the SSM be available to all such special products.[82]

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[79] G-33 letter to Ag Negotiations Chairman, 380/WTO/XI/05, November 1, 2005, http://www.tradeobservatory.org/library.cfm

[80] *Agriculture Negotiations – Status Report:* Assessment by the Chairman, 27 June 2005, JOB(05)/126, http://www.wto.org/english/tratop_e/agric_e/negoti_tnc_july05_e.htm

[81] FAO, *A special safeguard mechanism for developing countries*, FAO Trade Policy Technical Notes No. 9, undated, http://www.fao.org/trade/policy_en.asp

[82] Anwarul Hoda, *Special Products: Options for Negotiating Modalities*, ICTSD, Geneva, June 2005, draft

ActionAid's recommendations

This chapter shows that the current negotiations are clearly in favour of rich countries. If the final deal is anything like that which is presently on the table, ActionAid believes that poor countries should make history and reject it. For a development outcome the agriculture negotiations should uphold the rights of developing countries to protect the livelihoods of their poor farmers, and achieve food security and rural development. Special Products and a Special Safeguard Mechanism are potential vehicles for achieving these rights but only if their provisions are not compromised. The following issues need to be addressed for a development deal on agriculture:

- An agreement on Special Products and an SSM is urgently needed.
- Developing countries must be free to decide which products count as Special Products. Special Products should be exempt from tariff reductions and any commitment on tariff rate quotas. Special Products should also have access to the SSM.
- Only developing countries should have the flexibility to deal with price volatility and import surges through the SSM, and the mechanism should be available for all agricultural products.
- US cotton subsidies should be eliminated immediately so that the livelihoods of 10 million poor cotton farmers in West Africa are no longer jeopardised, and African cotton farmers should be compensated for their losses.

Furthermore, ActionAid calls for the following principles to guide any new Agreement on Agriculture negotiating framework:

- Developed countries must acknowledge the harmful effects of past trade reforms, implemented under IMF/World Bank structural adjustment programmes, on developing countries.
- Developed countries must take concrete measures to eliminate all trade-distorting domestic and export subsidies, and such measures must include announcing an early end date for the elimination of export subsidies.
- There must be a comprehensive and full review of the 'green box' to ensure that the criterion of being non- or minimally trade-distorting is met by all subsidies categorised therein. The review should aim to assess the impact of green box subsidies on production and trade. All green box subsidies must be fully decoupled from production, and targeted only at the delivery of public goods. Production-related subsidies should be eliminated and the remaining green box subsidies, other than those for general agricultural services, should be capped.
- Agricultural dumping must be prohibited.
- A counter-balancing mechanism for developing countries should be introduced into the Agreement. This would allow developing countries to address the problems caused by the accumulated effects of high levels of production- and trade-distorting subsidies provided to agriculture in rich countries by permitting

developing countries to adjust their tariff levels in accordance with the level of subsidies in the exporting countries.

- Tariff escalation and tariff peaks imposed by developed countries must be eliminated.
- Any deal in the Doha Round should guarantee improved agricultural market access in rich countries that benefits the poor producers of developing countries.

Chapter 3

The threat of de-industrialisation

Developed countries are currently pushing for new trade rules that will allow their industrial exporters to break into foreign markets for industrial goods. In the current WTO negotiations on 'non agricultural market access' (or NAMA), they are pushing for major reductions in developing countries' tariffs on industrial imports as part of a new multilateral agreement.[83] *As a recent ActionAid report showed, there is practically nothing in these talks that will benefit developing countries.*[84] *But they certainly stand to lose a lot. In fact, they stand to lose the right to promote critical policies that support development objectives.*

Trade policy, particularly in manufacturing and agriculture, is a key component in promoting development and eradicating poverty in developing countries. Industrial tariffs play an important role in protecting infant industries, creating jobs and tackling balance of payments problems. For this reason, many developing countries have maintained flexibility in their industrial trade policies to ensure successful development of their manufacturing base. The very real danger is that this could end. The scope and pace of the tariff reductions currently being proposed could lead to de-industrialisation in developing countries, as well as the loss of employment and the loss of critical government revenue.

What rich countries want

The US, EU and Canada published a joint paper in 2003 which stated that their basic goal for the NAMA negotiations was to achieve "commercially significant market access improvements through ambitious reductions of tariffs on non-agricultural products across the board and complete elimination of tariffs in specific sectors".[85]

The EU in particular has identified deep cuts in industrial tariffs as one of its top priorities for Hong Kong, stating that "the EU will continue to lead negotiations in 2005 to achieve an ambitious formula for tariff dismantling", especially for "key EU priority sectors, in particular textiles and clothing, footwear and leather". Its overall aim is for convergence among WTO members "around the lowest possible levels of protection".[86] The European Commission has said that "industry needs certainty" and that this is why

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[83] The negotiations mainly consider industrial products but also involve fisheries and minerals
[84] ActionAid, *Bound and Tied: The Developmental Impacts of Industrial Trade Liberalisation Negotiations at the WTO*, http://www.actionaid.org.uk/wps/content/documents/wto_nama.pdf
[85] *Non-Agricultural Market Access - Modalities*, contribution by Canada, European Communities and United States, 20 August 2003, JOB(03)/163, http://www.ictsd.org/ministerial/cancun/documents_and_links.htm
[86] European Commission, DG Trade, 'EU trade policy: main issues for the 133 Committee in the second half of 2005', Brussels, 1 July 2005; http://www.europa.eu.int/comm/trade/issues/sectoral/industry/tntb/index_en.htm

the EU wants developing countries to 'bind' their import tariffs (i.e. to agree not to raise tariffs on industrial imports).[87]

EU Trade Commissioner Peter Mandelson has said: "In the case of market access in industrial goods, there is a growing consensus in favour of a tariff reduction formula that will genuinely open up new business opportunities, including in the markets of faster growing, emerging nations."[88] This consensus may exist in the corridors of the Trade Commission in Brussels, and also in Washington, but it certainly doesn't exist in many developing countries. Rather, there is major opposition from various groups of developing countries to the drive for industrial market access.

Standing just behind the policy-makers are corporate interest groups lobbying for deep liberalisation commitments. Prominent amongst these industry groups have been the US National Foreign Trade Council, the US National Association of Manufacturers (NAM) and the European retailers' group EuroCommerce,[89] who are not only allowed to attend the WTO negotiations but are also allowed to hold lobby sessions during the meetings. NAM, for instance, led a global delegation of industry lobby groups at the negotiations in Geneva in April 2005 and pressed for "truly ambitious cuts in industrial tariff barriers". They have also remarked that "the really big accomplishment for industrial negotiations is that all countries have accepted the principle of big tariff cuts and sectoral tariff elimination" (although this, in fact, goes beyond what has been agreed). [90]

The impact of industrial liberalisation

As with the agriculture negotiations, the official line from Brussels and Washington is that industrial liberalisation is in developing countries' own interests. Evidence from both the past and the present paints a different picture however. Historically, developed countries and some of the more successful developing countries nurtured domestic manufacturing capacity through a variety of policy interventions, including tariff protection. Trade liberalisation was not forced upon them and most barriers to trade only came down when growth was already firmly established. **Today's rich nations first developed behind protective barriers and only liberalised when their industries were competitive. This is exactly the opposite of what is currently being proposed for developing countries in the NAMA talks.** The rich countries' strategy amounts to

[87] http://www.europa.eu.int/comm/trade/issues/sectoral/industry/tntb/index_en.htm
[88] Peter Mandelson, speech, 28 July 2005, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles
[89] For a flavour of corporate lobby group positions see 'NAM leads manufacturers' fly-in to Geneva seeking reduction of tariff barriers to trade', National Association of Manufacturers, 11 April 2005, http://www.nam.org/s_nam/doc1.asp?CID=202217&DID=233755; 'Vargo says agreement will boost Doha Round's industrial trade negotiations', National Association of Manufacturers, 3 June 2005, http://www.nam.org/s_nam/doc1.asp?CID=67&DID=234308. See also *Bound and Tied*, p. 34ff, www.actionaid.org
[90] John Hilary, *The Doha Deindustrialisation Agenda*, War on Want, April 2005, p. 11

nothing less than 'kicking away the ladder' of development from today's poor countries.[91]

The table below shows that both the US and the UK maintained higher tariffs on industrial goods in 1950 than the average tariff applied by developing and least developed countries in 2001. This is despite the fact that, in 1950, the US was nearly three times richer and the UK more than twice as rich as developing countries are today.[92]

Average industrial tariffs in developed and developing countries[93]

Country	Year	GDP per capita (US$)	Average tariff on industrial products (%)
USA	1950	9561	14
Great Britain	1950	6907	23
Brazil	2001	5508	10.4
China	2001	3728	12.3
All developing countries	2001	3260	8.1
All LDCs	2001	898	13.6

As noted in chapter one, East Asian tigers such as South Korea and Taiwan did not achieve economic diversification and impressive growth records as a consequence of *laissez faire* liberalisation. Both countries actively supported the development of domestic manufacturing capacity through a variety of policy interventions, including subsidies, tax incentives, duty-free access to inputs and tariff protection. Most barriers to trade only came down during the 1980s when growth was already firmly established.[94]

Other countries, such as Mauritius, Vietnam and China, which have been successful at combining industrial development with poverty reduction, also protected their domestic markets until growth was well under way. In Mauritius, real GDP grew on average by 5.9 per cent per year between 1973 and 1999, but trade liberalisation was not initiated until the late 1980s and even then substantial barriers to trade remained in place.[95] According to the IMF, Mauritius was still one of the world's most protected economies in the early 1990s, eliciting a rating of 10, representing the highest level of trade policy restrictiveness.[96]

[91] Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2002
[92] Meena Raman, 'Experts warn of devastating effects of NAMA framework', Third World Network Info Service, 22 May 2005, www.twnside.org.sg
[93] ActionAid, *NAMA Negotiations at the WTO: Policy Briefing for the October General Council*, ActionAid International, 2005
[94] Dani Rodrik, *The Global Governance of Trade as if Development Really Mattered*, UNDP, 2001
[95] A. Subramanian, and D. Roy, *Who can explain the Mauritian Miracle: Meade, Romer, Sachs or Rodrik?*, IMF Working Paper, WP/01/116, www.imf.org
[96] Ibid

History also shows us that rapid industrial liberalisation – for example, as part of structural adjustment programmes – often brought developing countries' companies into direct competition with those from more advanced developed nations before they could become competitive. As a consequence, industrial output often fell, factories closed and jobs were lost, and this led to de-industrialisation, increasing commodity dependence and balance of payments difficulties.

The impact of trade liberalisation on local manufacturing capacity was particularly serious in countries such as Zimbabwe, Bangladesh, Ecuador, Hungary, the Philippines and Ghana. In these countries, liberalisation was followed by decline or stagnation in the manufacturing industry's share of GDP, while sudden exposure to foreign competition led many firms into bankruptcy, with small and medium-sized companies the hardest hit.

The impact of industrial trade liberalisation[97]

* In Chile net employment in manufacturing fell by about 8 per cent following trade liberalisation.
* Haiti, one of the world's poorest countries, has seen its economy stagnate and its social indicators decline following a reduction in import tariffs in the mid-1990s.
* Senegal lost one-third of all its manufacturing jobs following a two-stage liberalisation programme in the 1980s.
* In the Philippines a comprehensive reform programme over the past 15 years has brought with it substantial output declines in several industries, including textiles, footwear and apparel.
* In Ghana, it is estimated that the increased competition from foreign consumer imports after liberalisation in the 1980s and early 1990s forced at least 120 factories to close down with the loss of 50,000 jobs. The garment, leather, electronics and pharmaceuticals sectors were particularly badly hit.
* In Ecuador, the liberalisation of imports contributed to an increased number of bankruptcies and a rise in unemployment between 1992 and 1998.

An UNCTAD study of 40 countries showed that half experienced de-industrialisation in the aftermath of trade liberalisation. Many of these countries, such as Ghana, Zimbabwe, Paraguay, Barbados and Haiti, were already at low levels of development, but even those that experienced an increase in exports following liberalisation, such as Chile, the Philippines, Brazil and Venezuela, saw their industrial base shrink as their barriers to trade came down. The study notes that a major difference between successful and

[97] S. Shafaeddin, *Trade Liberalisation and Economic Reform in Developing Countries: Structural Change or De-industrialisation?*, Discussion Paper No. 179, UNCTAD, April 2005, www.unctad.org ; S. Shafaeddin, *Trade Policy at the Crossroads – The Recent Experience of Developing Countries*, Palgrave Macmillan, New York, 2005; SAPRIN, *Structural Adjustment: The Policy Roots of Economic Crisis, Poverty and Inequality*, Zed Books, 2004, chapter 2; E. Buffe, *Trade Policy in Developing Countries*, Cambridge University Press, Cambridge, 2001

unsuccessful performers was that the former embarked on trade liberalisation “gradually and selectively as part of a long term industrial policy”, whereas the latter embarked on “rapid structural reform including uniform and across-the-board liberalisation”. The study concludes by noting that:

> **“The way it is recommended under the Washington Consensus, trade liberalisation is more likely to lead to the destruction of existing industries, particularly of those that are at early stages of infancy without necessarily leading to the emergence of new ones… One thing is clear: any new industry that emerges would be in line with static, rather than dynamic, comparative advantage. In the particular case of low income countries, it would imply that they would be locked in to production and exports of primary commodities, simple processing and at best assembly operation or other labour intensive ones with little prospect for upgrade.”[98]**

This is not to say that there haven’t been examples of increased trade openness contributing to development and poverty reduction. However, in these cases, liberalisation was gradual and targeted and was undertaken as part of a well-planned strategy for industrial development, such as in East Asia.[99] Even India, which is often held up as a country that proves the ‘neo-liberals’ right, has liberalised partially and gradually, maintaining policy flexibility on tariffs to nurture and promote the development of its manufacturing base.

Even in those countries where industrial liberalisation has contributed to economic growth, the process has tended to favour skilled rather than unskilled labour. This is a significant problem as the real poverty test for any liberalisation programme must be its ability to create new employment opportunities for unskilled workers. The sale of unskilled labour is the single most important source of income for poor people.[100] Without new jobs for the unskilled, trade liberalisation can hardly claim to be pro-poor.

“Institutional arrangements supporting successful industrialisation do not conform to a uniform pattern, and eclecticism and flexibility have been the hallmarks of the policy environment, allowing measures to be tailored to local economic circumstances and preferences regarding the trade-offs between rapid growth and social stability.”

UNCTAD, *Growth and Development in the 1990s: Lessons from an Enigmatic Decade*, TD/B/52/7, 14 September 2005

[98] S. Shafaeddin, *Trade Liberalisation and Economic Reform in Developing Countries: Structural Change or De-industrialisation?*, Discussion Paper No. 179, UNCTAD, April 2005, www.unctad.org
[99] S. Shafaeddin, *Trade Policy at the Crossroads – The Recent Experience of Developing Countries*, Palgrave Macmillan, New York, 2005.
[100] World Bank, *PRSP Sourcebook*, chapter 13, Washington DC, 2004

Nigeria: Textile sector faces "industrial tsunami"

The removal of trade restrictions on textile imports into Nigeria has devastated the country's textile industry. Massive dumping of cheap finished manufactured products occurred, forcing locally-produced manufactures out of the market.

According the textile union, 20 factories have been forced to close down with the loss of more than 16,000 jobs, which, taking into account the families affected, translates into nearly 100,000 people losing their source of livelihood. A further 18 are in danger of closure. Overall, at least 58 per cent of employment in the industry has been lost since 1998, leading the textile union to describe the situation as an "industrial tsunami". The Nigerian textile industry now has only a 27 per cent share of the domestic market.

Cotton farmers in Funtua in northern Nigeria, explain the situation: "The textile industry needs government to protect the local market through charging high tariffs for imported products. The government attitude of not supporting industry is producing unemployment."

Textile workers in nearby Kano agree that local industry needs protection: "The government policy of liberalisation should only have been introduced after government made sure that everything is functional. Trade liberalisation policy will lead to the collapse of Nigerian industries."

ActionAid Nigeria, *The Impact of Trade Liberalisation on Textile Industries*, 2005.

The extent of academic criticism of the current push for industrial liberalisation is very striking, demonstrating the exceedingly thin intellectual basis of rich countries' arguments. According to renowned economist Yilmaz Akyuz, for example:

> "The key question for developing countries is not what they can gain or lose from trade liberalisation as a result of its one-off effects… Rather, it is the implications of leaving industrial progress, technological upgrading and economic growth to global market forces dominated by large and mature firms from advanced industrial countries."

Even if developing countries could avoid the one-off adjustment costs of liberalisation and access developed country markets, Akyuz notes: "These one-off benefits may be quite insignificant compared to longer-term losses that may be incurred as a result of losing policy space for rapid industrialisation." The danger of any rapid move to free trade "would have the consequences of establishing an international division of labour based entirely on static competitive advantages derived from existing endowments and capabilities".

India: Textile and leather imports threaten millions of jobs

The Indian government has in recent years embarked on a strategy of autonomously reducing its import tariffs on industrial products. The highest tariff has been brought down from 355 per cent in 1990/1 – when neo-liberal reforms began – to 105 per cent in 2005, but with the actual (applied) rate being reduced from 133 per cent to 22 per cent. The result has been a surge in imports of industrial products, which is seen by many sectors of Indian industry as a threat to domestic industrialisation.

India is currently seeing the closure of many companies in traditional sectors of employment such as textiles and leather. Over the past five years production rates in these sectors have declined or slowed as exports have decreased and imports increased. An increasing number of manufacturing units have closed; and, within the textile sector alone, the number of units closing doubled from 220 in 1998 to 468 in 2004.

The textile sector is of vital importance to India, contributing 4 per cent of GDP and employing around 30 million people, especially women and less educated and less skilled workers. The loss of market share has brought unemployment for many of these people.

Vishambar, a 35-year-old silk weaver from Varanasi, is one of those who lost their jobs. "There is no work," he says. "I am just sitting and begging… I want work for myself and for other people in the village."

The leather sector, which employs around 2.5 million people, has also been suffering from continuously declining growth rates since 2000. Although part of the problem relates to environmental regulations imposed in the mid-1990s, the opening up of this sector to international competition and the reduction in tariffs has caused import surges. Imports have been mainly of finished products such as suitcases and handbags while exports of the same products have declined. Tariff reductions on finished leather products are thus putting great pressure on domestic industries.

A shoe manufacturer in Agra explains the situation: "In synthetic-based footwear, China has great competitive advantage and it is very difficult for Indian products to compete with Chinese products in the market. We prepare one shoe for Rs 150, while the Chinese can sell one pair of shoes for the same price. The further lowering of duties on imports of finished shoes is going to badly affect us. Indian shoe industries will be in great trouble as Chinese industries have very good competitive advantage in synthetic shoes."

Hosiyar Singh, a 42-year-old father of seven children, says life is getting much harder. "The work is reduced now, because of the government. They keep importing shoes from outside. They are not exporting anything from here. We have become jobless. I used to make 150 pairs a day, now I'm down to 32 pairs in a day."

Furthermore, customs duties have also been reduced. They contributed more than 30 per cent to government revenue in 1990, but less than 20 per cent by 2004. As a proportion of

GDP, this is a reduction from 3.6 per cent to 1.8 per cent. This decline in customs revenue is occurring despite import surges resulting from lower tariffs. This increase in imports has therefore not been sufficient to compensate for the loss of revenues.

ActionAid India, *NAMA and its impact on the Indian economy*, 2005.

Akyuz's conclusion is that: "While infant industry protection is no guarantee for successful industrialisation and growth, there is no example of modern industrialisation based on *laissez-faire*. Consequently, there is little economic rationale for developing countries to narrow their options to use tariffs for industrialisation by agreeing to bind and lower them significantly in the current negotiations on NAMA."[101]

Sanjaya Lall, of Oxford University, echoes Akyuz in noting: "The rules and pressures for liberalisation threaten to freeze comparative advantage in areas where capabilities exist at the time of liberalisation." He has shown how the neo-liberal approach to industrial policy "can result in slow and truncated technological development, with gaps between countries rising". Lall also notes that currently the tools for industrial policy permissible under WTO rules "are probably not enough to foster the rapid and achievable development of technological capabilities". He calls for an industrial policy for a new era, based on developing countries having much greater policy space.[102]

Current negotiations

The WTO's July 2004 framework, on which the current negotiations are based, contains three main dangers for developing countries:

- The first is deeper tariff cuts for poor countries through a non-linear tariff reduction formula, which would drastically reduce tariffs in many developing countries, eroding policy space and undercutting their ability to protect infant industries and strengthen their industrial base.
- The second is the 'sectoral initiative' that would harmonise, or even eliminate, tariffs in certain sectors.
- The third is the demand for all developing countries, including the least developed, to increase the level of their tariff binding (i.e. to set a maximum rate beyond which tariffs cannot be applied), thus removing a potential key policy tool to aid industrialisation.

The developing countries are to have a longer timescale than rich countries to reduce their industrial tariffs, and the least developed countries (and another group of 12 countries) are exempt from reducing their tariffs. However, the tariff reductions for developing countries will be deeper in some areas than those that rich countries have to

[101] Yilmaz Akyuz, 'WTO's NAMA negotiations: Policy space at stake', *South Bulletin*, 30 July 2005, pp. 364-70, www.southcentre.org
[102] Sanjaya Lall, *Reiventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness*, G-24 Discussion Paper No. 28, UNCTAD, April 2004, www.unctad.org

undertake (since developing countries currently have higher tariffs); and they are also being pushed to increase the number of industrial product lines which have tariff bindings.

Reducing tariffs

The formula currently being proposed by developed countries for securing tariff reductions is a so-called ‘non-linear Swiss formula’, which means that higher tariffs are to be subject to deeper cuts. This means that developing countries, who have higher tariffs, are likely to be required to implement deeper reductions. In October 2005, for example, the EU and US jointly proposed capping industrial tariffs at 10 per cent for developed countries and 15 per cent for developing countries.[103] Yet the average industrial tariff for developed countries is around 6 per cent, whereas it is closer to 30 per cent for developing countries. Therefore, under this proposal, poor countries would be required to make deeper cuts than rich countries.

> “Whatever the approach, the developing countries will be required to make the greater cuts in their bound rates and will face greater proportional increases in imports. They will also suffer substantial losses in tariff revenues and this will be a serious concern in a number of cases.”
>
> **Santiago de Cordoba et al, *Market Access Proposals for Non-agricultural Products*, UNCTAD, 2005**

The July framework also specifies that developing countries will be subject to “less than full reciprocity in reduction commitments” and that the tariff reduction formula “shall take fully into account the special needs and interests of developing and least developed country participants”. Not only does the proposed formula completely fail to address developing countries’ special needs, but it also, in effect, requires them to undertake *more than* full reciprocity than developed countries in reduction commitments.

Furthermore, tariff cuts in developing countries will mean a significant loss of tax revenues. A paper from the African, Caribbean and Pacific (ACP) group of states submitted to the NAMA negotiations notes that, on average, 40 per cent of their government income comes from tariff revenues, and that any losses would need to be replaced in “a long term process that can be expensive to implement and many ACP states are not in a position to do so”. They note that: “Sales or consumption tax could replace tariff revenues, but such important changes to fiscal systems are costly and may defeat the purpose of the exercise.”[104]

[103] ‘EU links progress on agriculture to deep NAMA tariff cuts’, *BRIDGES Weekly Trade News Digest*, 5 October 2005, www.ictsd.org

[104] Negotiating Group on Market Access, *Market Access for Non-agricultural Products: Communication from Trinidad and Tobago on Behalf of the ACP Group of States*, TN/MA/W/47, 30 March 2004, http://www.namawatch.org/wto.html

Sectoral initiative

Developed countries are also strongly pushing the sectoral initiative for tariff elimination or reduction in whole sectors. Discussions have recently taken place in Geneva on sectors such as electronics, chemicals, fish, footwear, and gems and jewellery. Many developing countries have maintained their long-standing opposition to mandatory commitments, insisting that any participation in the sectoral initiative must be on a voluntary basis. Given this opposition, developed countries are now pushing a 'critical mass approach' which would agree a certain proportion of trade to be liberalised in that sector.[105]

One sector of key interest to a number of developing countries is textiles, an important component in the industrial development of many countries. The phasing out of the Multi Fibre Agreement (MFA) in January 2005 – which ended the system of quotas, and liberalised trade in the sector – has brought higher-cost textile producers, for example in Nepal, Cambodia, Bangladesh and Sri Lanka, into direct competition with lower-cost producers such as those in India and China. Many of these countries are already experiencing the impact through lost jobs, falling output and declining export markets, as ActionAid's case study on India shows. The harmonisation or elimination of tariffs on textiles through a sectoral approach could further harm these countries.

As noted in the preceding section, reducing tariffs is likely to mean a significant increase in imports from developed countries, which may lead to balance of payments difficulties and increased competition for domestic producers. In cases where domestic industries are small and incipient, the premature reduction of tariffs is likely to lead to a loss of production and unemployment, while also eroding policy space and undercutting poor countries' ability to protect and develop infant industries and to strengthen their industrial base.

Various academic analyses have shown the vital importance of tariffs in industrial development. One study, looking at 100 countries, found that initial tariffs positively contributed to growth during the period 1970-1997, particularly in developing countries. Another found that the relationship between tariffs and growth was negative among developed countries but positive among developing countries.[106] Yilmaz Akyuz argues that "a rational tariff structure based on selective and temporary protection appears to be one of the factors distinguishing East Asian economies such as Taiwan and Korea from less successful countries which had similar or even lower average tariff protection and price distortion".[107] In this light, developed countries are pushing poor countries to cut their own throats.

[105] Martin Khor, 'Fate of South's industries at stake in WTO's NAMA negotiations', Third World Network information service, 21 September 2005, www.twnside.org.sg

[106] Cited in Yilmaz Akyuz, 'WTO's NAMA negotiations: Policy space at stake', *South Bulletin*, Issue No. 108, 30 July 2005, p. 367, www.southcentre.org

[107] Yilmaz Akyuz, 'WTO's NAMA negotiations: Policy space at stake', *South Bulletin*, Issue No. 108, 30 July 2005, p. 367, www.southcentre.org

Binding tariffs

The requirement to increase the level of tariff bindings, especially for least developed countries, is akin to a straitjacket for those countries that may, in the future, need to use tariffs to raise government revenue, foster the establishment of a new industry or protect infant industries. A submission to the negotiations by the ACP group states that if developing countries are required to reduce their tariff bindings to levels below their applied (i.e. actual) rates, "then this would eliminate any flexibility that developing countries have to use tariffs for development purposes". Although countries can resort to anti-dumping actions and other measures to try to restrict imports, "for ACP countries the use of these instruments is very costly and therefore retaining bound tariffs at a sufficient level remains our primary defence mechanism".[108]

As Veena Jha has noted, the process of binding is itself a concession on the part of developing countries since they currently have the right to raise their tariffs to a level of their choice. While developed countries have bound 98 per cent of their tariffs on industrial products, developing countries have bound 77 per cent and least developed countries just 33 per cent.[109] Non-LDC developing countries are now expected to increase their coverage to at least 95 per cent.

Many developing countries would be adversely affected by this increase in binding because they have kept a significant number of tariff lines unbound. Countries such as Bangladesh, Burundi, Chad, the Gambia, Mozambique, Myanmar, Tanzania, Togo, Uganda and Zambia all have a binding coverage of less than 10 per cent. Other countries also have low binding coverage, such as Cameroon (0.1%), Congo (3.2%), Ghana (1.2%), Kenya (1.6%), Nigeria (6.9%) and Zimbabwe (9.0%).

The negotiating process on NAMA is also fundamentally flawed. The chair of the negotiations reinstated a base text that blatantly favours developed countries and which many developing countries had rejected at the Cancun ministerial meeting. Developing countries only finally agreed to the inclusion of this text on the insistence that it be preceded by a vehicle (the first paragraph) which stated that its key components – including the formula for tariff reductions, the treatment of unbound tariffs and the sectoral initiative – still have to be agreed and negotiated. Meanwhile, the EU is making every effort to trade off its defensive concerns in agriculture against its offensive interests in NAMA. Peter Mandelson has said that the EU stands ready to phase out its export subsidies but only in exchange for cuts in industrial tariffs by developing countries.[110]

[108] Negotiating Group on Market Access, *Market Access for Non-agricultural Products: Communication from Trinidad and Tobago on Behalf of the ACP Group of States*, TN/MA/W/47, 30 March 2004, http://www.namawatch.org/wto.html

[109] Veena Jha, 'Nama: Policy space for development at stake', *South Bulletin*, 15 July 2005, p. 336, www.southcentre.org; Santiago Fernandez de Cordoba et al, *Blend it like Beckham: Trying to read the ball in the WTO negotiations on industrial tariffs*, June 2004, p. 7.

[110] Peter Mandelson, 'Trade and Development: The Road Ahead', speech at the EPC-KBF Conference, 16 June 2005, http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_2005_en.cfm

Special and differential treatment

The NAMA negotiations have been largely stalled and subject to fierce disagreement, essentially between developed and developing countries, mainly over the formula for tariff reductions. By July 2005, the chair of the negotiations was reporting that "we have reached an impasse".[111] Positions on NAMA were hardening, according to the former WTO Director General, Supachai Panitchpakdi, due to "the lack of progress on agriculture".[112]

Alternative proposals by developing countries are, in effect, being blocked or stalled by developed countries. In July 2005, a joint paper from some Caribbean countries (Antigua and Barbuda, Barbados, Jamaica and Trinidad and Tobago) proposed an alternative to the tariff reduction formula based on average cuts rather than the simple 'Swiss formula'. These include the need for developing countries "to have the flexibility and policy space to vary their tariff levels in line with developments and needs such as changes in economic priorities or circumstances" and "to be able to adopt measures that lead to successful industrial development".[113] This proposal was welcomed by several countries, including India, Kenya, Bolivia and Argentina, but the EU reportedly expressed misgivings, stating that the use of the average tariff was not acceptable and that the proposal would be a stumbling block in the negotiations.[114]

A joint proposal by Congo, Cote D'Ivoire, Cuba, Kenya, Mauritius and Zimbabwe has called for countries to bind their tariffs at levels "consistent with their individual development, trade and fiscal needs", while a paper by Armenia, Georgia, Kyrgyzstan and Moldova – countries which have recently acceded to the WTO – called for their economies to be exempted from tariff reductions. It has been reported that "developed countries did not take too kindly to these proposals" with both proposals receiving a negative reaction from the EU, US and others.[115]

Developed countries have also opposed a joint proposal by Argentina, Brazil and India for an alternative tariff reduction formula that would enhance special treatment for developing countries and not require them to make deeper tariff reductions than developed countries. The US and the EU were reportedly concerned that the proposal would not reduce existing applied tariffs. The US stated that "nothing is to be gained in terms of real market access if we do not cut into applied [tariff] rates", while the EU

[111] Negotiating Group on Market Access, *State of Play of the NAMA Negotiations: Chairman's Commentary*, 8 July 2005, JOB(05)/147, http://namawatch.org/wto.html
[112] Tetteh Hormeku, 'Major differences in NAMA talks', TWN-Africa, 8 July 2005, www.namawatch.org
[113] *A Development-oriented Approach to Tariff Reduction*, Communication from Antigua and Barbuda, Barbados, Jamaica and Trinidad and Tobago, 5 July 2005, http://www.namawatch.org/wto.html
[114] Tetteh Hormeku, 'Trade: Caribbean countries propose new formula at NAMA meeting', TWN-Africa, 5 July 2005, www.namawatch.org
[115] Tetteh Hormeku, 'Major differences in NAMA talks', TWN-Africa, 8 July 2005, www.namawatch.org; 'New Caribbean formula stirs up NAMA talks', *BRIDGES Weekly Trade News Digest*, 6 July 2005, www.ictsd.org

stated that "end rates are of primary importance for EC companies".[116] Pakistan also put forward a proposal trying to find out common grounds in NAMA negotiations.

A major concern for African states is that multilateral tariff liberalisation will result in the loss of the preferential access to rich countries' markets they currently enjoy. An African Group paper of February 2005 submitted to the negotiations notes that most African countries currently depend on preferences for a large share of their exports and that "any further liberalisation must take into account this commercial reality to avoid further marginalisation of some African countries which need to progressively adapt their weak industrial base". The paper states that "the inequality of economic factors and levels of development means that these countries cannot participate in reciprocal trade without devastating their economic structures" and that "many of these countries are reliant on specific industries and have economies that are sensitive to tariff fluctuations". As for the sectoral initiative proposal, this "will hinder development of industrial sectors in Africa". The African proposal is for a 'correction co-efficient' to be applied to improve the preference margin for African exports.[117]

Various alternatives to the wholesale liberalisation currently being proposed by rich countries have been put forward. For example, Sanjaya Lall, in an analysis referred to above, has called for a four-stage industrial policy "for the new era". The first stage involves providing policy-makers with an objective and detailed analysis of what successful countries did to build industrial capabilities. "This is not the case today," Lall notes. "On the contrary, the system denies that industrial policy has any role to play." The second stage is to create greater space for industrial policy in international trade agreements. The third stage is to help develop the capability to mount industrial policy, involving building administrative competence and strengthening government capabilities. And the fourth stage would be to help devise strategies appropriate to each country. "If this seems a forlorn hope at this time, consider the alternative of persisting with wholesale liberalisation," Lall warns.[118]

Yilmaz Akyuz argues that developing countries do not need high tariffs "for all sectors and for all time. But they should have the option of using tariffs on a selective basis as and when needed for progress in industrialisation. They should not be expected to keep moving tariffs downward from one trade round to another, but be able to move them in both directions in different sectors in the course of industrial development."[119]

[116] Goh Chien Yen, 'Trade: divergencies over modalities to tariff reduction in NAMA talks', 8 June 2005, www.namawatch.org
[117] Negotiating Group on Market Access, *Market Access for Non-agricultural Products: Treatment of Non-reciprocal Preferences for Africa*, Communication from Rwanda on behalf of the African Group, TN/MA/W/49, 21 February 2005, http://www.namawatch.org/wto.html
[118] Sanjaya Lall, *Reiventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness*, G-24 Discussion Paper No. 28, UNCTAD, April 2004, www.unctad.org
[119] Yilmaz Aykuz, *The WTO Negotiations on Industrial Tariffs: What is at Stake for Developing Countries?*, Third World Network, May 2005, p. 26

ActionAid's recommendations

ActionAid believes that the current NAMA negotiations will certainly be harmful and could be disastrous for industrial development and poverty reduction in developing countries. If the final deal is anything like that which is presently on the table, ActionAid believes poor countries should make history and reject it. Moreover it is important that:

- the current negotiating text – from July 2004 – to be rejected
- a full, independent assessment of the potential developmental and environmental impacts of the NAMA negotiations to be conducted.

ActionAid also believes that the following principles should guide any new NAMA negotiating framework:

- The interests of all developing countries – but particularly LDCs – should be at its core.
- There should be less than full reciprocity as well as effective and meaningful special and differential treatment for developing countries in all aspects of the negotiations.
- Developing countries must be able to retain the flexibility to choose which product lines they bind and at what level.
- Developing countries must retain the flexibility to choose tariff reduction commitments.
- Assistance and capacity building should be forthcoming to enable developing countries to participate fully and effectively in the negotiations.
- Least developed countries should be exempt from all commitments and should have immediate duty-free and quota-free market access to developed country markets.
- Preference erosion and the use of anti-dumping and other measures to block developing country imports must be adequately addressed.
- Developed countries must address tariff peaks, tariff escalation and non-tariff barriers in their industrial sectors.
- Sectoral initiatives should be dropped.

Chapter 4

Services: liberalisation's new frontier

Developing countries face a further threat from the negotiations on services. In these talks, developed countries are ratcheting up the pressure on developing countries to make 'offers' to open up their service sectors to foreign exporters. This is part of a strong business-backed bid to secure access to lucrative new markets. The threat comes from the possibility of foreign companies taking over fledgling businesses and sectors in poor countries, as well as the privatisation of key public services. Despite consistent resistance from developing countries (not to mention civil society groups around the world) no sectors, including essential services such as water, education and health, are excluded from possible liberalisation in these negotiations.

The developed countries' strategy also involves a push to change the rules of the game, from a process that allows a purely voluntary making of offers to one that negotiates minimum liberalisation commitments from all countries. At the same time, developed countries are resisting calls from developing countries to liberalise rules on the cross-border movement of workers, which is their key interest in these negotiations.

Services and the GATS agreement

Services are the fastest growing area of the global economy, accounting for nearly 20 per cent of world trade and three-fifths of foreign investment. Developing countries account for 22 per cent of the world's exports of services, but these are concentrated in a few countries. Africa accounts for just 1 per cent of the world's exports of services, while all the least developed countries together account for just 0.44 per cent.[120]

The General Agreement on Trade in Services (GATS) extended the WTO's rules to include services, and covers everything from banking to tourism to essential services such as water, transport, health and education. As with other WTO agreements, the purpose of GATS is 'progressive liberalisation'; that is, to remove 'unnecessary' trade restrictions and government regulations deemed barriers to trade between countries. The GATS agreement allows countries to choose whether they open up their services to liberalisation or not; but, if they do, the national treatment rule applies (under which foreign service providers must be treated equally to domestic firms).

Since the GATS agreement covers foreign direct investment in services, it is therefore also an instrument to promote the liberalisation of investment. Indeed, given that foreign investment in services accounts for roughly half of the world's total foreign investment, GATS can be viewed as being half way towards a global investment liberalisation

[120] UNCTAD, *Review of developments and issues in the post-Doha work programme of particular concern to developing countries*, 26 August 2005, TD/B/52/8, www.unctad.org

agreement. For developed countries it is therefore a mechanism to protect investor rights and 'lock in' liberalisation commitments to the benefit of foreign companies.

At the same time, the EU in particular is also pushing under GATS for liberalisation commitments in the area of government procurement in services. This means that government spending on services could also become subject to the national treatment principle, under which foreign firms will have the same rights as domestic firms. GATS is therefore also being seen as a step towards liberalising government procurement.

What rich countries want

The European Commission has recently said: "For the EC the principal aim of the services negotiations is to improve market access for European services exporters in foreign markets and to secure a more transparent and predictable regulatory environment for services." In January 2005, the EU submitted to the WTO a list of 'requests' for liberalisation by other countries, in sectors such as financial services, tourism, environmental/water services and construction.

The EU asserts that it is not seeking liberalisation commitments that would dismantle or privatise public services such as water supply. Yet the requests do cover "all environment sub-sectors" such as water collection, purification and distribution services and sewage services, and some requests seek liberalisation commitments in "traditional public services (notably municipal services)" in the water and waste sectors.[121] The EU's previous set of GATS 'requests' in 2003 showed that it was seeking the liberalisation of water services in 72 countries (out of 102 subjected to services liberalisation 'requests' overall).

Throughout the GATS negotiations, the EU's position has been heavily influenced by the European Services Forum (ESF), a lobby group of service companies. In confidential correspondence with the ESF, the Commission once noted that it "would very much welcome industry's input into this exercise, both in terms of finding out where the problems currently lie and in making specific requests. Without ESF input the exercise risks becoming a purely intellectual one." Following the Cancun ministerial meeting the ESF issued a statement about the WTO talks to the effect that "trade in services take centre stage as it has the most to offer the EU economy". Three weeks later, the Commission issued a communiqué stating that the services negotiations "are clearly one of the areas… where the EU has much to gain. Services should therefore be maintained at the top of the EU's negotiating agenda."[122]

[121] European Commission, *Summary of the EC's Revised Requests to Third Countries in the Services Negotiations Under the DDA, Brussels*, 24 January 2005, http://europa.eu.int/comm/trade/issues/sectoral/services/wto_nego/index_en.htm
[122] World Development Movement, *GATS: The Forgotten Battle over WTO Investment Rules*, February 2004, p. 1, www.wdm.org.uk

As for US goals, these were clearly articulated by US Trade Representative Robert Portman in a speech to the Coalition of Service Industries, a big business lobby group, in September 2005. Portman noted that the US goal was "to achieve a higher level of liberalisation across the globe", ensuring that "these new market access commitments are of high quality, and that we secure those commitments in those countries that matter to us the most". He continued:

> "We have also identified key sectors, such as financial services, telecom, computer-related services, express delivery, distribution and energy services, for which we are going to secure a critical mass of high quality commitments from key developing countries. So, that is our focus: focusing on the countries that matter the most, focusing on those services where we can see the most potential for gain. We do think we have a good idea of which countries would constitute a critical mass – and that is namely the larger developing countries, as well as, of course, those traditional markets for our services. And we know pretty much what we're looking for in terms of quality – commitments that provide for the unrestricted direct investment and unlimited supply of cross-border services."

Portman concluded by telling his audience of key service companies: "I am very pleased that you are making progress in putting together some interesting proposals that approach this from some new angles, I think that is important. Clearly, your views are going to be important as we begin to develop our policy in this area."[123]

The effects of services liberalisation

ActionAid believes that access to social services is a basic right, and that there is no substantial evidence that liberalisation of social services *per se* contributes to development and poverty eradication. Indeed, civil society groups have long feared that GATS is viewed by developed countries and their corporations as a key part of the push towards privatisation of basic services in developing countries. Although this has always been furiously denied by the EU and others, it is clear that the pressure applied on developing countries in the GATS negotiations – together with bilateral pressure on developing countries in regional and other trade negotiations, conditionality attached to World Bank loans, and the use of bilateral aid money from countries like the UK to promote privatisation[124] – are all heading in one direction.

The service sector is a cornerstone for development and poverty eradication in developing countries. In most developing countries, governments play a key role in ensuring public access to essential social services to achieve development policy objectives. Overall, GATS, and other pressures to liberalise, threaten to radically restructure the role of developing countries' governments to the detriment of the public interest. In the words of Robert Wade of the London School of Economics, the GATS agreement "makes it next to impossible for developing country governments to protect

[123] Robert Portman, speech to the Coalition of Service Industries, 20 September 2005, www.ustr.gov
[124] See, for example, WDM, *Dirty Aid, Dirty Water: The UK Government's Push to Privatize Water and Sanitation in Poor Countries*, 2005, www.wdm.org.uk

their own service industries from competition from well-established foreign firms, in the way that virtually all successful developers have done in the past”.[125]

GATS requires national treatment, which means that governments must treat foreign firms in the same way as domestic firms, and ‘market access’, which prevents governments from placing limits on the number of service suppliers or outlets and on where they operate. These measures represent massive encroachments on developing countries’ space for promoting policies suited to their national circumstances.

There is some flexibility however for developing countries in the GATS agreement, in that governments can specify limitations on some of the commitments they make in a particular sector and hence wall off particular government laws or regulations from GATS. But the reality is that the pressure from outside the GATS agreement to liberalise and privatise threatens to do away, in practice, with the flexibilities that developing countries are technically accorded in the current agreement.

Inappropriate or over-rapid liberalisation of services can cause a range of serious problems for developing countries. These include the displacement of domestic firms and net job losses caused by the expansion of foreign firms, net foreign exchange outflows due to profit repatriation by foreign firms, and financial instability resulting from opening up financial markets to capital flows.

The alleged benefits of investment

GATS is partly an agreement on liberalising investment and opening economies to foreign direct investment (FDI). It is still widely believed that poorer countries must do everything they can to attract foreign investment, and this is one of the arguments put forward as to why developing countries should open up to foreign service providers.

Yet, whether foreign investment actually benefits developing countries or not depends on a range of factors. According to UNCTAD, “sustainable, long-term capital flows, particularly greenfield FDI, are primarily attracted to countries that have already achieved rapid economic growth and steady improvements in human and physical infrastructure. Thus, for those with a robust investment dynamic in both physical and human capital, trade and FDI can reinforce an established virtuous growth circle. Where this is not the case, those same forces are just as likely to lead to marginalisation and/or enclave type development.”[126]

The diminishing ability to adequately regulate companies is a key concern of many developing countries. A recent joint proposal by a group of developing countries including Brazil, Colombia and the Philippines has strongly reaffirmed the right of

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[125] Robert Wade, *What strategies are viable for developing countries today?: The World Trade Organisation and the shrinking of “development space”,* Crisis States Programme: Working Paper No.31, LSE, June 2003, p. 8, www.lse.ac.uk
[126] UNCTAD, *Growth and Development in the 1990s: Lessons from an Enigmatic Decade*, TD/B/52/7, 14 September 2005, www.unctad.org

countries to regulate and introduce new regulations, and to define "the kind of universal service obligation it wishes to maintain". The proposal defines different types of regulations and provides for special treatment for developing countries.[127]

The experience of liberalisation and privatisation of public services under World Bank/IMF structural adjustment programmes has often proved disastrous, subjecting key basic services to the laws of supply and demand and, in effect, depriving whole sections of the population from adequate health and education services. Yet these disastrous experiences have not deterred a new generation of liberalisation advocates from promoting the cause.

One major issue affecting large numbers of people around the world which has come under intense scrutiny by civil society groups and movements is that of water privatisation. Much recent experience of such privatisation has proven extremely serious for poor people, in countries as diverse as the Philippines, Argentina, Bolivia, South Africa and Indonesia, where disconnections from water lines and increased prices following privatisation have regularly increased hardship and deepened poverty.

Developing countries' experiences of water privatisation[128]

- In Bolivia, after receiving a 40-year concession contract, the Bechtel corporation increased water tariffs by 100-200 per cent, which led to riots and protests in the city of Cochabamba.
- In Indonesia, water companies Thames and Suez were given a 25-year contract, but were unable to bring the promised investment while people in Jakarta were forced to shut down their private tube wells.
- In Argentina, Suez was given a contract in 1993 with the commitment to reduce water rates by 27 per cent, but rates increased by 177 per cent in 2002 and 7,200 employees lost their jobs.
- In Manila in the Philippines, a 25-year lease agreement with Manila Water (co-owned by Bechtel) and Maynilad (co-owned by Suez) was signed in 1997 with the promise of bringing a \$7.5 billion investment, providing 100 per cent coverage by 2007 and a 4.97 pesos per cubic metre guaranteed price. After one year, Maynilad asked for a price rise and rates increased to 6.58 pesos per cubic metre in 2001, and then to 15.46 pesos in 2003; monthly water costs rose from 87 to 147 pesos. Nearly 3,000 workers were laid off.

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[127] 'Services: Members discuss Mode 4, domestic regulation', *BRIDGES Weekly Trade News Digest*, 23 February 2005, www.ictsd.org

[128] See, for example, Public Citizen, 'Water Privatization Fiascos: Broken Promises and Social Turmoil', Water for All Campaign, Oakland, California, March 2003; D. Santoro, 'The 'Aguas' Tango: Cashing in on Buenos Aires' Privatization', Global Policy Forum, 2003, http://www.globalpolicy.org/socecon/tncs/2003/0206argentinewater.htm; International Consortium of Investigative Journalists, 'Indonesia: Water and Politics in the Fall of Suharto', 2003, http://www.waterconserve.info/articles/reader.asp?linkid=20134; R Landingin, 'Loaves, Fishes and Dirty Dishes: Manila's Privatized Water Can't Handle the Pressure', The Centre for Public Integrity, 2003, http://www.icij.org/water/report.aspx?sID=ch&rID=51&aID=51

South Africa: Privatisation brings rising water bills and difficult choices

In South Africa, the delivery of water has become part of a strategy of 'cost recovery' and privatisation, with national policies being geared towards making water a source of profits for transnational corporations. While the South African Constitution and the Bill of Rights protect the right to water as a basic human right, the Water Services Act of 1997 was the first piece of legislation passed under the African National Congress government that allowed for business interests to enter into the arena of water provision.

Today, the responsibility for water provision in South Africa is shared with major transnational corporations that are also active in other parts of the world. These include Vivendi (operating as Veolia Environment), Biwater, SAUR (operating as Siza Water), and Suez which manages the supply of more than 5 million people in the Eastern Cape and Johannesburg.

While access to basic services may have increased for many South Africans since 1994, the fact that this has happened within a neo-liberal framework has meant that people have been asked to start paying for services at a time of hyper-unemployment and increasing poverty. The South African government does not acknowledge the number of households that have been cut off from water for nonpayment but, according to the Department of Provincial and Local Government's Project Viability Study for 2001, approximately 500,000 people were cut off for non-payment in the last three months of 2001.

In Phiri, Soweto pre-paid water meters have been installed, increasing the hardship faced by many poor residents. Jennifer Makoatsane is 34 and lives in a four-room house with eight other family members, none of whom is currently employed. She says: "This has affected us so much that we are not using water as much as we used to before. We have learnt to use less water because we cannot afford to pay for water. For example, we use the same water for different things. When we wash dishes or clothes we keep that water to flush the toilet, or we adults will wash with the same water that the children wash in. It has also caused conflict within our household over what to prioritise in terms of spending. It is difficult to think about buying water. You think twice now whether to buy a loaf of bread or save it to buy water."

Henry Nkuna is a 36-year-old resident of the township of Kanyamazane, located 20 kms north-west of Nelspruit. He has been active in campaigning against the privatisation of water which began in 1999 when the Nelspruit Local Authority contracted the British-based company Biwater to provide its water services for the next 30 years. Henry says that things quickly changed under Biwater. While, in the past, residents had paid a flat rate of 6.66 Rand for water and there were "no problems", once Biwater took over water supply, households started receiving bills in excess of 300 Rand.

He explains why the residents of Kanyamazane weren't happy with Biwater: "It was only later that we discovered that Biwater is a large multinational water corporation based in Britain. They came through the back door, to crook us. They did not even consider whether the person was working or not. Biwater started to instal new meters but they did not lay any new pipes as they had promised. The same pipes that were laid long ago during the apartheid years [in the 1970s] are still in use. After the installation of the meters, we had to start paying higher amounts for water, and if you did not pay then they would disconnect you."

Henry goes on to relate how members of the community decided that they would not pay: "Now we said to ourselves, let them fight with us if they can." Members came together to form the Anti-Privatisation Forum in Kanyamazane, and, in Henry's words, said "that if they [Biwater] disconnect water, then people in the community should let our organisation know and we will arrange our own people to go and connect again. When they disconnect, we connect. We went and bought pipes and connected from the main pipes directly to people's houses, without any meters or conditions attached – we gave water directly to the people. This was not theft but getting what has been repossessed from us and bringing it back to the people."

Dr Bright Mabaso is a medical practitioner who treated many people from Matsulu, a township 15 kms outside of Nelspruit, who drank water from contaminated streams in the area in January 2004. He remembers: "I work with poor communities and, as part of my work, I attended to a number of children who were brought to me with severe cases of diarrhoea, vomiting and gastroenteritis. Normally, you might see one such case per day, but on this occasion (which lasted about a week), the numbers per day were averaging between five and ten – that, by definition, is an outbreak. We tried to analyse and find out where this was coming from. In this case, various households were affected, which meant there was a common source and we figured out that it has to be from contaminated water. It involved the entire community."

Dr Mabaso suggests that, while the infection could have come through tap water, it is more likely that it resulted from residents being cut off from their regular water supply and using water from contaminated rivers and streams nearby. He says: "This [the cut-offs] is not something that happened just at this particular time though; it is happening all the time, on a regular basis. There is the real possibility that during the time when there is no supply, people access water from the stream."

Southern Africa Partnership Programme, ActionAid, *WTO, services and experiences of water privatisation in South Africa*, 2005

Yet a whole infrastructure of aid support has developed in the World Bank and among some key donors – such as the UK government – to encourage and push private sector involvement in water supply, even in countries where public sector control of water delivery was working efficiently. As a consequence, mass public campaigns are currently under way in numerous countries, some of which – as in Bolivia – have been largely successful in resisting the wholesale takeover of water by profit-seeking interests and proposing community-owned and/or publicly-controlled alternatives.[129] The fear is that the experience of water privatisation may in future be replicated in other public services across the developing world, and that GATS is heading in this direction.

The liberalisation of services related to agriculture could also have serious negative consequences on food security and rural employment. Most developing countries have an abundant supply of labour, and services such as rice planting, wheat harvesting, and fruit picking, grading and packing are provided by this large pool of cheap labour. However, the use of machines by foreign service providers to achieve efficiency could dislocate millions in the rural labour force, especially women. In Southeast Asia, for instance, women provide up to 90 per cent of the labour for rice cultivation,[130] so they would be the most affected by the mechanisation of their tasks.

Massive gains or misleading speculation?

Developed countries, along with the WTO Secretariat, have long promoted the idea that developing countries stand to gain massively from multilateral services liberalisation. One positive impact is meant to come from increases in foreign investment likely to follow liberalisation. Yet, an UNCTAD study noted: "There is no empirical evidence to link any significant increases in FDI flows to developing countries with the conclusion of GATS."[131]

Currently, it appears that no speech on trade by a US, UK or EU official is complete without reference to a University of Michigan study asserting that multilateral services liberalisation will boost incomes by hundreds of billions of dollars. The study also, however, suggests that 81 per cent of the gains will accrue to developed countries. Moreover, this estimate can be treated with a pinch of salt. Predictions on welfare gains from trade agreements are known to vary wildly and often fall extremely wide of the mark. Indeed, the Michigan figures have been widely criticised by other analysts who argue that such simulations can never be accurate enough to be used directly in the conduct of the GATS negotiations.[132]

Current negotiations

In the light of past and present experience, it is no surprise that many developing countries, especially those in Africa, have barely participated in the GATS process and have offered few service sectors up for liberalisation. These countries not only recognise that such liberalisation would not be in their interests, but they are also hindered by

[129] See, for example, Corporate Europe Observatory, *Reclaiming Public Water: Achievement, Struggles and Visions from Around the World*, CEO, Amsterdam, 2005, www.corporateeurope.org and www.waterjustice.org
[130] FAO, http://www.fao.org/gender/en/agrib4-e.htm
[131] UNCTAD, *A Positive Agenda for Developing Countries: Issues for Future Trade Negotiations*, 2000, p. 172, www.unctad.org
[132] Edward Sussex, 'Assessing the global economic impact of the liberalisation of trade in services: research and propaganda', September 2005, www.ourworldisnotforsale.org

numerous capacity problems, such as a lack of functioning regulatory systems, which they would need if their service sectors were actually to be opened up.

The current negotiations on services are clearly proceeding on the basis of the developed countries' agenda. Developed countries are placing enormous pressure on developing countries to 'offer' their services for liberalisation, especially by pushing a new process ('benchmarking') for securing this. Meanwhile, the key interest for developing countries in the negotiations – increasing the movement of workers across borders – is being stalled. Also being ignored are the repeated requests of developing countries for a comprehensive review and assessment of services liberalisation before continuing with GATS, even though this is a legal requirement under WTO rules.

Benchmarking

Until now, the major protection for developing countries in the GATS agreement has been that liberalisation commitments need to be undertaken voluntarily, based on making 'offers' to and 'requests' of others. But developed countries, especially the EU and the US, have consistently expressed despair with the slow pace (and quality, in terms of depth of liberalisation) of 'offers'. EU Trade Commissioner Peter Mandelson has recently noted, for example, that the process is "depressingly slow" and, in a comment directed at African countries, said "I urge you, in your own interest, to make offers".[133] Ominously, the EU has also recently declared: "A number of important developing countries have still not submitted any offers and there is growing concern about what to do about those members that have so far refused to engage."[134]

The 'benchmarking' approach currently being pushed by the EU would require countries to provide a minimum level of binding commitments for key sectors and sub-sectors. This approach is in defiance of GATS and the current negotiating guidelines, which state that the 'request-offer' process is the main method of negotiations.[135] While developing countries have repeatedly rejected benchmarking, it continues to return to the negotiating table.

In September 2005, six new papers were submitted to the Geneva negotiations (by the EU, Japan, Australia, Switzerland, South Korea and Taiwan) stating that the request-offer process had yielded few results and proposing new ways to secure liberalisation commitments. Some of the proposals would require countries to bind their actual levels of liberalisation and commit to opening a minimum percentage of sub-sectors to foreign service suppliers from a list of sectors to be agreed on. These papers were met with widespread opposition from developing countries. A group of Caribbean states responded, for example, by stating that "the proposed new approaches would make it

[133] Peter Mandelson, speech, 8 June 2005, www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles
[134] European Commission, DG Trade, 'EU trade policy: main issues for the 133 Committee in the second half of 2005', Brussels, 1 July 2005
[135] Sabrina Varma, 'GATS: Tweaking "benchmarks" misses development', *South Bulletin*, 30 June 2005, p. 312, www.southcentre.org

impossible for our domestic services suppliers to maintain their domestic markets", and that "such deep levels of liberalisation in more sub-sectors than we would rationally commit to would undermine our own development goals and objectives".[136]

Deputy US Trade Representative, Peter Allgeier, also recently suggested that the request-offer approach had not led to significant results and reportedly said that a more proactive approach would be necessary to secure market openings in "core critical areas". This new approach appears to have been directly influenced by US business interests. At the same time, the US Coalition of Service Industries has been lobbying for WTO members to agree to initial market openings in all service sectors because, it says: "Too few offers have been tabled, and those offers that have been tabled provide for too little liberalisation."[137]

Developing countries are also under pressure from other quarters to submit their initial 'offers'. In negotiating 'Economic Partnership Agreements' with regional developing country groups, the EU has established a more aggressive strategy than in the WTO. It is trying to force the pace of negotiations by getting the ACP states, for instance, to agree to 2006 "at the latest" as the start date for negotiations on services liberalisation. This is a much faster timetable than in the WTO. The EU is therefore trying to push regionally what it has not been able to achieve multilaterally. The Commission has asserted that ACP states not be allowed to impose any further "discriminatory measures" against EU service companies now that the negotiations on these agreements have started. [138]

The negotiating tactics of rich countries, outlined above, together with the suggestion that there is a 'climate of crisis' around these negotiations, are effectively denying the right that member states have to decide which sectors to open and when. This strategy is undermining the flexibility that poor countries now have to make binding commitments only when they are ready to do so, and defies the clear legal obligation required under WTO rules to grant "appropriate flexibility for individual developing country Members" and to accept commitments that are "in line with [poor countries'] development situation".

Mode 4

The area of the negotiations that could produce the most benefit for developing countries is on 'Mode 4', which defines the "movement of natural persons" across borders. A study for the Commonwealth Secretariat estimates that if OECD countries allowed a 3 per cent quota of its labour force to workers from developing countries, the benefits would be 150 per cent greater than from all other areas of liberalisation.[139] Yet there was little or no

[136] Martin Khor, 'Developing countries object to "benchmarking" proposals', Third World Network Information Service, 27 September 2005, www.twnside.org.sg
[137] 'New US approach to inject momentum into services talks?', *BRIDGES Weekly Trade News Digest*, 18 May 2005, www.ictsd.org
[138] 'EU Directives for the negotiations of Economic Partnership Agreements with ACP countries and regions', 17 June 2002
[139] Cited in Goh Chien Yen, 'Developing countries cautioned against services liberalization commitments in GATS/WTO', February 2003, http://www.ifg.org/analysis/wto/cancun/gatt/devcaut.htm

Pakistan: Fishing communities face tough competition from foreign trawlers

A recent study on the liberalisation of fishing services shows the detrimental effects on the country's fisherfolk. Following the commercialisation of the fisheries sector, indigenous communities have progressively been edged out of production, pricing, marketing and processing.

Around 300,000 local fisherfolk engaged in family fishing with small boats can no longer compete with commercial trawlers and are being displaced. Fish exporting companies have established a monopoly over the market, and local fisherfolk are also losing out in terms of price to corporate marketing agents. The sustainability of the fish stock is also under threat from over harvesting.

Muhammad Yousif, a 29-year-old fisherman, explains the effects: "Trawlers have replace local fishermen. The companies give us poor rates. We are becoming poorer while the companies earn more." Twenty-five-year-old Ms Baghi agrees: "Foreigners entering the fishing sector have forced local people out … we have no money left to spend on health problems and illnesses."

Pakistan Fisherfolk Forum – ActionAid Pakistan, *Globalization & Fisheries Livelihoods in Pakistan*, 2005

serious discussion on this issue in Geneva recently. With an abundance of labour, developing countries have also requested discussion of semi-skilled labour under Mode 4, although this is currently also not being entertained.

A paper published in April 2004 by 18 developing countries noted that there has not been "any real improvement" in the Mode 4 commitments made by developed countries. The paper called for the elimination of pre-employment conditions, quota restrictions on visas and restrictions on duration, among other areas.[140] Recent reports suggest that the US is unwilling to expand on its initial offer under Mode 4, which provides for temporary cross-border movement of professionals providing services.[141] One analysis of Mode 4 commitments in health services, for example, notes that the EU has generally not responded to requests by developing countries to allow lower-skilled workers into the EU and that barriers such as stringent qualification requirements, work permits and entry processes remain in place. It concludes by noting that calls by developed countries for deep liberalisation commitments should be treated with caution since developed countries themselves have been so cautious about acceding to developing countries' requests.[142]

[140] Cited in IISD, *Trade in Services*, Doha Round Briefing Series, December 2004, p. 3, www.iisd.org
[141] 'Services cluster inconclusive, negotiations in trouble', *BRIDGES Weekly Trade News Digest*, 2 March 2005, www.ictsd.org
[142] South Centre, 'Analysis of actual liberalization versus GATS commitments of Quad members: Mode 4 and health services', June 2004, www.southcentre.org

Liberalising government spending: a new frontier

The EU in particular is also pushing, under GATS, for liberalisation commitments in the area of government procurement in services. An EU paper submitted to the WTO in June 2005 argues for "procedural rules for government procurement and the possibility to make specific commitments in GATS schedules to open up to international competition government procurement in services".[143] The Commission has its eye on construction services where, it says, government spending accounts for as much as half of the total demand for construction services.[144] Most developing countries reject the EU's approach, arguing that the GATS agreement excludes government procurement in services from the national treatment rule.

Yet, it is clear that the Commission regards the current WTO discussions on transparency in government procurement – which developing countries rejected being added into the formal Doha work programme – as a step in the direction of full liberalisation, not just in service sectors but for all government spending.

The Commission has stated that the key is "the development of multilateral disciplines to ensure that public procurement procedures are transparent and that opportunities exist to bid for foreign contracts".[145]

The global government procurement market is massive and therefore a lucrative prize for European businesses. As Commissioner Mandelson has said: "Public procurement is another example where national preferences impede market access. Counting for up to 15% of GDP, it probably represents the biggest sector of trade sheltered from overseas competition".[146]

ActionAid's recommendations

ActionAid believes that the developed countries' current approach to the negotiations on services amounts to an aggressive strategy that is fundamentally detrimental to the interests of developing countries. If the final deal on services is anything like that which is presently on the table, ActionAid believes that poor countries should make history and reject it. ActionAid calls for the following fundamental issues to be addressed for a development deal:

[143] WTO Working Party on GATS Rules, *Communication from the European Communities: Government Procurement in Services,* 15 June 2005, http://www.wto.org/english/tratop_e/gproc_e/gpserv_e.htm
[144] European Commission, *Summary of the EC's Revised Requests to Third Countries in the Services Negotiations Under the DDA, Brussels*, 24 January 2005, http://europa.eu.int/comm/trade/issues/sectoral/services/wto_nego/index_en.htm
[145] European Commission, *Doha Development Agenda: Making Trade Work for All*, June 2005, www.europa.eu.int/comm/trade/icentre/infopack_en.htm
[146] Peter Mandelson, speech, 15 February 2005, www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles

- There needs to be an independent and comprehensive review and assessment of the impact of services liberalisation in developing countries before the GATS negotiations proceed any further.
- Developing countries should not make new service liberalisation commitments until comprehensive sectoral assessments have been undertaken, which weigh carefully the benefits and burden of liberalisation.
- Developed countries should immediately withdraw their benchmarking proposals because they contradict the basic architecture of GATS, erode flexibility and depart from the GATS negotiation guidelines.
- Deeper provision needs to be made in GATS to allow for the flexibility of developing countries to regulate companies providing services, in order to promote national development objectives.
- Public service sectors such as education, health, water, agricultural extension and environment must be explicitly excluded from liberalisation commitments.
- Developing countries have expressed concerns not only about the lack of clarity but also about ambiguities in the schedules submitted by developed countries. It is therefore essential that these schedules are reviewed by an impartial international committee of experts.
- The negotiations on GATS rules and emergency safeguard measures should be completed before any commitments are made by developing countries on market access. This will be consistent with the negotiating guidelines and will protect developing countries' nascent service sectors. Developing countries should not offer any sectors for opening up under GATS before the rules are finalised.

This report shows that developing countries face major dangers from the current WTO negotiations. If developed countries secure their objective and obtain deeper liberalisation commitments from developing countries in agriculture, industrial products and services, another damaging phase of global economic liberalisation will begin and this will certainly lead to increased poverty and inequality for many of the world's most vulnerable people.

For a truly pro-development outcome to the Doha round of talks, developed countries must stop forcing poorer nations to liberalise, and allow developing countries the right to choose their own policies, at their own pace, and that means, in the current global context, **the right to protect.**

ActionAid International

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