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# Focus on Trade

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At the end of July, the WTO General Council agreed to a new framework for trade negotiations. The press, business lobby groups, the leading economic powers (and indeed several developing countries) greeted this as a break-through, claiming that the Doha Development Agenda is now “back on track.”

But what's in the framework and what happened in the 10 months between the dramatic collapse of negotiations in Cancun and the Geneva accord?

Just days after the agreement, European farmer organizations were being reassured that the reduction in export subsidies would not kick in until 2015, or maybe 2017, while the office of the US trade representative briefed Washington lobby groups on the big gains, especially in the area of industrial tariffs. Given this reaction from the major powers it is puzzling that the major developing countries, including G20 leaders Brazil and India, greeted the framework with such enthusiasm.

In this issues of Focus on Trade, Aileen Kwa, who was in Geneva throughout the negotiations, and Walden Bello look at the negotiating strategies of the major powers and the role of the G20, while Devinder Sharma looks at the “devil in the detail” of the framework.

Two Geneva-based G20 ambassadors have reacted already to the Bello and Kwa article: one strongly rejecting the analysis and defending both the G20 and the outcome of the negotiations, and another congratulating the authors for the astute reporting of what really happened. For obvious reasons, we cannot divulge the countries of the ambassadors.

Finally in this issue, Jane Kelsey describes the hoops that small Pacific island countries are forced to jump through

when they seek to enter the WTO. Understandably, many are left wondering whether it's worth it.

## G20 LEADERS SUCCUMB TO DIVIDE-AND-RULE TACTICS: THE STORY BEHIND WASHINGTON'S TRIUMPH IN GENEVA

By Walden Bello and Aileen Kwa\*

The July Framework Document is a major triumph for the big trade superpowers, particularly the United States. As for the developing world, the situation is more complex, with most countries losing but some claiming that they have made gains. Among the few claiming to be in the win column are Brazil and India, which are acknowledged as the leaders of the G20 and two of the Five Interested Parties (FIPS) that played the leading role in drafting the agriculture text.

Attention needs to be paid to the dynamics of the July framework negotiations since they were a departure from traditional North-South trade negotiations and may set patterns for things to come.

Institutionally, among the innovations is that the General Council has now become de facto the supreme institution for WTO decision-making. What the July meeting came up with was effectively a ministerial declaration without a ministerial meeting. Two ministerial collapses—Seattle and Cancun—underlined to the WTO secretariat and the trade superpowers the unwieldiness of the ministerial as an arena for decision-making. It attracted NGOs and popular protests. It drew ministers, many of whom were not professional negotiators but political people determined to stand up for their country's interests. It brought the press in large numbers, thus making decision-making more transparent despite the wishes of negotiators accustomed to exclusive "green rooms."

Only some 40 trade ministers were present in Geneva for the July GC meeting, with many representatives of countries that played a key role at the Cancun ministerial, such as Kenya and Nigeria, absent. Obviously, with some 100 ministers of WTO member countries absent, a great many governments failed to fully grasp the significance of the meeting.

As for global civil society, which had played such a critical role in the outcome in Cancun, it was, for the most part, complacent, failing to appreciate how quickly the trading powers could rebound from their state of disarray. Very

few NGOs had people in Geneva during the critical days in July.

Yet, this was not simply the old-style manipulative behavior of the trade superpowers and the WTO secretariat of the pre-Cancun period. The post-Cancun situation made this impossible. Cancun marked the emergence of the G20 as a key player in trade negotiations. As Ambassador Clodualdo Hugueny of Brazil put it during the debate at the World Social Forum in Mumbai last January, “The G20 broke the monopoly over trade negotiations by the EU and the US.”

The US, however, failed to appreciate the change situation immediately. Coming out of the Cancun summit, US Trade Representative Robert Zoellick signalled a more aggressive, more unilateralist approach in trade negotiations when he said that the US would thereafter put its emphasis on concluding bilateral agreements with “can do” countries, implying that it would expend less effort in negotiations within the WTO. Washington also launched a frontal assault on the G20, successfully detaching El Salvador, Colombia, Peru, Costa Rica, and Guatemala from the body in a few weeks’ time.

As for other developing countries, the G20 was a phenomenon that was received positively. Yet there were apprehensions among them that the most influential members of the G20 were agro-exporters like Brazil and that the main focus of the group was ending the EU and US’ massive subsidy systems and bringing down tariff barriers to market access in these prosperous markets. Many countries, including Indonesia, were worried that the G20 governments were much less concerned with protecting developing country markets and smallholder agriculture from low-priced imports. Hence, the G33 continued to put forward proposals for protected “special products” and “special safeguard mechanisms.”

Other countries felt the G20 focus on agriculture was inadequate as a strategy for defending developing country interests. This led to the formation of the G90 (composed of the Africa Group, ACP [African Caribbean and Pacific countries] and the Least Developed Countries) which united around the effort to block the “New Issues” of investment, government procurement, competition and trade facilitation from coming under the jurisdiction of the WTO.

Nevertheless, the G20’s formation did electrify the ranks of developing countries, and many governments were inspired by Brazilian Foreign Minister Celso Amorim’s promise in his Cancun speech that the aim of the G 20 was to “bring it [the world trading system] closer to the needs and aspirations of those who have been at its margins—indeed the vast majority—those who have not had the chance to reap the fruit of their toils. It is high time to change this reality.”

By the spring of 2004, however, Washington’s dual strategy—pursuing bilateral agreements and destroying the G20—was running into trouble. The Free Trade Area of the Americas (FTAA) that it wanted failed to materialize in the ministerial summit in Miami in November 2003, and it also began to realize that bilateral agreements could complement but never substitute for a comprehensive, multilateral free trade framework to promote corporate trade interests. At the same time, the G20, despite the initial defections, held firm.

To get the WTO restarted, Washington, working closely with Brussels, shifted gears. Instead of trying to destroy or undermine the G20, they moved to make its leaders, Brazil and India, a central part of the negotiations in agriculture, which was the key obstacle to any further moves at liberalization. Thus was formed in early April the informal grouping called the Five Interested Parties (FIPS), composed of the US, EU, Australia, Brazil, and India. It was in close consultation with this grouping that WTO Agriculture Committee Chairman Tim Groser produced the proposed agriculture text of the July Framework.

A shift in strategy was also evident towards other countries and formations. In the spring, USTR Zoellick began visiting a number of strategic developing countries. Instead of spurning invitations to the G90 meeting in Mauritius in mid-July, the EU and the US sent high level delegates, including Zoellick. There, confrontational language gave way to rhetorical efforts to get the developing countries not only to come to a compromise on agriculture but also to get talks moving on bringing down non-agricultural tariffs, starting talks on trade facilitation, and getting the negotiations on services underway. But perhaps the strongest message that the developing countries heard from the trade superpowers was this was the last chance to get the multilateral system moving—the implication being that they would

be held responsible if the late July General Council talks did not get off the ground.

The US-EU drive to restart the WTO succeeded brilliantly. The US and the EU were the main beneficiaries of the agreement to cut non-agricultural tariffs, with the highest tariff rates being subjected to the deepest cuts; indeed, Zoellick went back to the US trumpeting the claim that the accord on NAMA (Non-agricultural Market Access) was a massive victory for US corporations since it was but the beginning of a process that would reduce industrial and manufacturing tariffs to zero. Both the EU and the US scored a victory by getting the developing countries to agree to begin talks on trade facilitation, one of the “new issues” that the developing countries rejected in Cancun. But it was the US that scored the biggest gain, getting as it did, in addition to the foregoing, an expanded “Blue Box” in which to house a considerable portion of the subsidies to its farmers legislated under the US Farm Bill of 2002.

Part of Washington’s success stemmed from a wily negotiating strategy. For instance, to get its new expanded Blue Box, Washington distracted the developing countries attention by putting forward its demand that they reduce their domestic supports, that is, the allowable rate of subsidization of their production. Thrown on the defensive, these countries spent much energy justifying their subsidies, so that they were only too relieved when the US stepped back to compromise on the issue in return for their agreeing to the expansion of the Blue Box. Similarly, just before the General Council meeting, the EU suddenly brought in the category of “sensitive products” to protect some 20-40 per cent of its products from significant tariff cuts. Worried that the EU might put blocks to their demand for protecting products essential to their food security, the developing country negotiators acquiesced.

But the key to the victorious US strategy was bringing Brazil and India into the core group of the negotiations, then acceding to these countries’ core demands in order to detach them from the rest of the developing countries. India’s key concern was to avoid the so-called “Swiss Formula” for cutting tariffs that would require it to bring down its agricultural tariffs substantially, something on which it saw eye to eye with the European Union. According to one developing country negotiator, India’s main

focus for the General Council was protecting its tariffs and it was not going to push hard on the issue of eliminating agricultural subsidies so as not to endanger the EU’s support for its position on tariffs. (The Indian government’s position on subsidies had been watered down by its informal alliance with the EU on the tariff issue after the Doha Ministerial before the EU abandoned the Indians to align themselves to a common position with the US in the period leading up to Cancun.) Both the EU and India were comfortable with a “Uruguay Round” approach to tariff cuts as they regarded their average tariff level as high enough for them to stomach another round of cuts. There were developing countries, however, with much lower tariff averages, for which even a Uruguay Round approach would be too drastic, for example Honduras, Sri Lanka, Indonesia.

On the other hand, removing agricultural subsidies was Brazil’s concern, and here it got its way. The final text affirmed the phase-out of export subsidies as well as certain categories of export credits. The big winner with the phase-out of subsidies is said to be Brazil, with some estimates placing its gains as some \$10 billion. According to Amorim, the July decision marked the “beginning of the end” of export subsidies. Yet, the Brazilian “gains” are not secure unless locked in by the modalities of the negotiations. A specific end-date for the elimination of export subsidies will only be clinched in the next phase of discussions. Moreover, even when elimination has supposedly taken place, the EU has after all been known to replace export subsidies with indirect export subsidies by way of direct payments to farmers under the Green Box. This is also the intention of the current Common Agricultural Policy (CAP) reform. Furthermore, the framework leaves untouched the Green Box, which houses up to 70 per cent of US’ total subsidies. Even the most optimistic analysts cannot say for certain that overall levels of support from the two agricultural giants will be brought down. In fact, it is predicted that subsidy levels will be maintained if not increased.

Nevertheless, for now, Brazilian agribusiness is very happy. Indeed, it was the pressure of Brazilian agribusiness that allegedly forced Celso Amorim to hang-on to the subsidy issue at the expense of a strong defense of developing country interests in other areas. Having gained nothing from failed negotiations on the FTAA and an EU-Mercosur trade pact, Brazilian agro-exporters were hungry for a successful

WTO agreement that would enable them to hike their exports to the EU and US.

Among those that were left disadvantaged from India and Brazil placing their specific interests in command were:

- the majority of developing countries whose markets will continue to be flooded by dumped products from the US and EU. For the South as a whole, the opportunity to correct the distortions in agriculture trade legitimized in the Uruguay Round has been lost
- the African cotton-producing countries which failed to get negotiations on US cotton subsidies put on a fast-track independent of the agriculture negotiations, or even a commitment that all cotton subsidies will be eliminated;
- the Group of 33, which was left with nothing more than a vague commitment that their demand for “special products” and the “special safeguards mechanism” and in particular, the coverage of products under such a mechanism, would be a subject of negotiations;
- most developing countries, which had rightfully opposed the NAMA text (on market access of non-agricultural products) as a prescription for their deindustrialization. Indeed, the US scored a big win on NAMA for the text is a detailed agenda for the radical liberalization that transnational corporations have long wanted. As the US National Association of Manufacturers saw it, “This is a huge accomplishment, and a big win for the WTO, the United States, and the world economy. The really big accomplishment for industrial negotiations is that all countries have accepted the principle of big tariff cuts and sectoral tariff elimination.”
- most developing countries, which have now agreed to speed up their offers of services for liberalization.

It was not that India and Brazil were not sensitive to the demands of other developing countries. In fact, they were given high marks for consulting the different developing country groupings. It was simply that by becoming central actors in the elaboration of the proposed framework, they had painted themselves into an impossible situation. And the more meeting their own interests began to diverge from a strategy of promoting the interests of the bulk of the developing countries, the more they trumpeted the claim that the July Framework Document was a victory for the South. It is testimony to the prestige of India and Brazil among other countries in the South that up till

today, many developing countries do not realize how badly they lost in Geneva.

The trade superpowers learned from the debacle in Cancun. The shift from a confrontational strategy to one of co-optation and subtle divide-and-rule was able to rip apart the superficial “Third World unity” that came out of Cancun. The centerpiece of the strategy was to bring in the leaders of the G20, India and Brazil, into the center of the negotiations and play to their specific interests. They fell for the trap. Moreover, having become central players as members of the exclusive Five Interested Parties, their ability to repudiate large parts of a text that they had been consulted on prior to its release to the General Council was limited. That would have invited the onus of being responsible for the “collapse” of the Doha Round and the multilateral trading system.

During and after Cancun, the G20 was seen in some circles as representing a major power shift in the global trading order. Some even saw the G20 as the dynamo for a reinvigorated “New International Economic Order.” The reality is that the G20, and in particular Brazil and India, have been accommodated into the ranks of the key global trading powers, but it is increasingly becoming clear that the price for this has been their diluting the strength of the negotiating position of the South.

More than ever, the South needs leadership, one that is willing to take risks for the whole and rejects the temptation to settle for small and maybe illusory gains for one’s country. Many had expected the leaders of the G20 to fill this role. In the first decisive post-Cancun encounter, the latter have not lived up to expectations.

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## OUTSIDE VIEW: FAULTY FRAME, SAVAGE REALITY

By Devinder Sharma\*

(This is a UPI Outside View Commentary, first published on 3 August 2004.)

NEW DELHI, Aug. 3 (UPI) — I had just finished a radio discussion on All India Radio over the World Trade Organization's multilateral-framework agreement that is being projected as a historic breakthrough, when my phone rang. A seemingly excited owner of an upmarket mall in New Delhi asked: "You mean the WTO has done exactly what we have been doing for ages?"

"You will have to explain what you mean by saying that," I said.

"Well," he replied, "do you believe we put up sale signs all over shops announcing discounts of 20 to 50 percent (and) end up running ... huge losses?"

"We first increase the price of our products, and then offer discounts to lure customers, and (they) actually end up paying more."

He laughed, and added, "The WTO has done exactly that, and I think the so called brilliant negotiators from the developing countries have been taken for an easy ride."

Although WTO Director General Supachai Panitchpakdi may be unaware how the simple and universal business trick has been effectively used, US Trade Representative Robert Zoellick and Pascal Lamy, the European Union's outgoing trade commissioner, have successfully managed to hoodwink developing country negotiators. They have gone back more than satisfied with the empty promise of reducing contentious agricultural subsidies, but in reality have received a legal stamp of approval from developing countries that allows them to increase grants.

They couldn't have asked for anything more.

Let us first understand the political ramifications. Agricultural subsidies have been (and will remain) the bone of contention in the ongoing trade negotiations. Disputes over the West's agricultural subsidies, which amounted to \$320

billion led to the collapse of the WTO Cancun Ministerial in September 2003. (see editor's note below) The question is what made them change their stand during a US election year?

It is accepted any move to significantly cut agricultural subsidies will be political suicide for rich countries. US President George W. Bush is unlikely to cut subsidies for his farmers during an election. European nations, especially France, Germany, and the Nordic countries, would have been faced with political turmoil if it meant any drastic cut in subsidies. No political reaction in any developed country is enough of an indication rich countries have managed to protect their subsidies.

Paragraph 7 of the Framework for Establishing Modalities in Agriculture (July 31 final draft) says: "As the first installment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 percent of the sum of Final Bound Total AMS (Aggregate Measurement of Support) plus permitted de minimis plus the Blue Box at the level determined in paragraph 15."

And in paragraph 15, it adds: "In cases where a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a member is not called upon to make a wholly disproportionate cut."

Reading this together means all efforts made by developing countries to see the trade-distorting Blue Box is removed have been nullified. This allows developed countries to shift a large chunk of their agricultural subsidies (under the Green Box and Amber Box) to the Blue Box. In other words, the advantage developing countries gained with the termination of the Peace Clause on Dec 31, 2003, (under which the developing countries could not challenge agricultural subsidies in the rich countries) has been negated. They will now be confronted by an equally detrimental Blue Box.

The framework actually provides a cushion to the United States and the EU to raise farm subsidies from the existing level. If you read the draft carefully, it becomes obvious the first installment of a cut in subsidies by 20 percent is not based on the present level of subsidies but on a much higher level that has been now

authorized based on the three components — the final bound total AMS, plus permitted de minimis, plus the Blue Box. For the EU, this should come to \$115.4 billion and after applying the first cut, the subsidies that can be retained will be \$92.33 billion.

If we were to add all the components as specified in the WTO framework, the EU subsidies will total around (including the under-notified coupled support) \$67.23 billion, far less than what it is supposed to reduce. In other words, the EU gets enough leverage to increase its subsidies. No wonder the so-called phase out of agriculture subsidies has not snowballed into political crises in any European country.

Furthermore, the EU has \$17.23 billion in Blue Box subsidies. This is a large, and therefore the framework states: “In cases where a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a Member is not called upon to make a wholly disproportionate cut.” The EU therefore does not have to worry about cutting the Blue Box subsidies.

The United States, on the other hand, wants to shift \$180 billion for 10 years that it has provided to farmers under the notorious Farm Bill 2002 (70 percent of this amount is to be spent in the first three years, before Bush goes to elections) to the Blue Box. Since the WTO will now specify the historical period from which the Blue Box implementation begins, it means the United States can protect the yearly installment of its counter-cyclic payments to farmers. In the case of cotton subsidies, where the United States provides a daily support of \$10.7 million to its 25,000 cotton-growers, and where the ruling of the WTO Dispute panel has gone against US cotton subsidies, the WTO has refused to act. All the WTO general council has done is to “instruct the director general to consult with the relevant international organizations, including the Bretton Woods Institutions, the Food and Agriculture Organization and the International Trade Centre to direct effectively existing programs and any additional resources towards development of the economies where cotton has vital importance.”

Special and Differential Treatment was a measure originally carved out for developing countries given the varying levels of development and so these countries need to be given

some concessions in implementation. However, in reality these measures were actually used only by developed countries. Instead of dispensing with these measures, the framework legitimizes its application for rich countries. The only redeeming feature being developing countries have been promised a special safeguard mechanism. This is where developing countries need to exert pressure, and see they have the right to reimpose tariffs to block cheaper imports.

As if the massive subsidies were not enough, developed countries have used high tariffs to successfully block imports from developing countries. They have used special safeguards measures (SSG), used only by 38 rich countries so far, to restrict imports from developing countries. Developed countries took advantage of this flexibility by reserving the right to use the SSG for many products: Canada reserves the right to use SSG for 150 tariff lines, the EU for 539 tariff lines, Japan for 121 tariff lines, the United States for 189 tariff lines, and Switzerland for 961. On the other hand, only 22 developing countries can use SSG. These SSG measures remain under negotiations, which means these will continue for quite some time.

The question of market access assumes importance in the light of the special and differential treatment, special safeguard measures and domestic support (including Green Box subsidies) remaining intact in developed countries. Using a tiered formula, developed countries have managed to seek an overall tariff reduction from bound rates. The only defense developing countries have been allowed is to brand some of their important agricultural products as “sensitive” and bring some other under “special product” category. But the fact is developing countries have already opened up their markets by phasing out or removing the quantitative restrictions or lowering tariffs. It is the developed world that has failed to reduce subsidies as per the rules of the game.

This “benevolence” is no justification for developing countries to rejoice. The fact is developed countries have also been allowed the same provisions, which means they can term some crucial commodities as sensitive and thereby deny market access. For instance, the United States, the EU, Japan and Canada maintain tariff peaks of 350 to 900 percent on food products such as sugar, rice, dairy products, meat, fruits, vegetables and fish, which can be easily brought under the category

of “sensitive” and some 25-40 of the sensitive tariff lines under the tariff rate quota can be easily protected under this category.

In any case, let us not forget a country like India cultivates some 250 different crops a year whereas Europe does not grow more than 25. For India to say areca nut are not sensitive products would mean destroying the livelihood of thousands of farmers cultivating areca nuts. For Europe getting a score of crops protected under “sensitive” and “special products” will be justified. But to expect WTO to accord “special product” status to more than 200 crops from India would be asking for the impossible.

If you are wondering why developing countries still agreed to reach an agreement and that too within five days of intense negotiations, let us take a peep at what transpired behind the scenes through arm-twisting and coercion. The leader of the Group of 20 group of developing countries, Brazil, was among a number of developing countries that were thrown a sugar-coated bait just a week before the negotiations entered the decisive phase. On 23 July, the United States announced its sugar quota allocation for 40 countries. This system allows these countries to export a fixed quota to the United States at a lower tariff rate. The largest recipients were the Dominican Republic (185,335 metric tons) followed by Brazil (152,691 metric tons), Philippines (142,160), Australia (87,402), Guatemala (50,546), Argentina (45,281).

International NGOs have said the EU had withdrawn aid to Kenya, the most vocal of the African countries. It may be recalled that Kenya was the country that had staged a walkout at Cancun thereby leading to the collapse of the WTO ministerial meeting. This time, EU withdrew \$60.2 million in aid to Kenya on July 21 under the pretext of “bad governance.” British Trade Minister Patricia Hewitt has already gone on record stating that London was using its influence to persuade developing countries. Moreover if “bad governance” is the EU’s legitimate concern there seems to be no justification in joining hands with the United States at such international negotiations after the US-led war in Iraq. The terror of trade, however, does not operate on ethics and morality.

While negotiations and the debate over the outcome of the ongoing parleys continue

unabated, agricultural exports from the Organization for Economic Cooperation and Development (the richest trading block) continue to rise. Between 1970 and 2000, the EU’s share in agricultural exports increased from 28.1 percent to 42.7 percent. France increased its share from 5.7 percent to 8.1 percent, Germany from 2.6 percent to 5.9 percent and Britain from 2.7 percent to 4.1 percent. In India, agricultural imports have multiplied four times, and more than 63 percent of edible oils worth \$ 3.2 billion a year are now imported. Ten years ago, India was almost self-sufficient in oilseeds production.

Despite the World Bank repeatedly painting a rosy picture of the gains that would result from the implementation of the WTO trade agenda, the fact remains surging food imports have hit farm incomes and had severe employment effects in many developing countries. Unable to compete with cheap food imports, and in the absence of any adequate protection measures, income and livelihood losses have hurt women and poor farmers the most. The resulting loss in livelihood security and the accelerated march toward hunger and destitution will only lead to large-scale displacement of farming populations all over the developing world.

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(1) Editor’s note: this figure of \$320 billion is from the OECD and includes “indirect supports” such as trade restrictions (tariff and non-tariff barriers) that raise the price of agricultural goods for developed country consumers. The actual figure of direct subsidies to farmers is less than one third that amount. Some of the \$320 billion goes to developing country producers, as in the case of sugar quotas, where poor country producers are able to sell fixed amounts into rich countries at a price above the world price.

(United Press International’s “Outside View” commentaries are written by outside contributors who specialize in a variety of important issues. The views expressed do not necessarily reflect those of United Press International. In the interests of creating an open forum, original submissions are invited.)

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## ACCEDING COUNTRIES AS PAWNS IN A POWER PLAY: A CASE STUDY OF THE PACIFIC ISLANDS

By Jane Kelsey\*

I would like to begin my comments with a plea made by the Deputy Prime Minister and Finance Minister of Samoa - one of three small islands in the South Pacific that are undergoing the torturous process of WTO accession:(1)

“We, the small states of the Pacific, and the world, feel as though we are the mice who catch pneumonia when the elephants sneeze. We would ask the big powers to tread softly, for you tread not only on our lives, but also on our livelihoods.”(2)

Similar, and persistent, appeals for sensitivity in WTO accessions have fallen on deaf ears.(3) The problem, according to a senior Samoan negotiator, is that the supposedly “rules based organization” has no rules. Others who have an intimate knowledge of Vanuatu’s stalled accession put it more sharply: “the accession process has no rules, except precedent and power, and is the very antithesis of what the members publicly state to be the intention and design of the WTO”.(4) The General Council Decision of 10 December 2002, which pledged sensitivity to development needs and self-restraint towards least developed countries (LDCs),(5) has not made the slightest difference. Nothing mocks the claim to a Doha “development” agenda,(6) and delegitimizes the WTO even further, than the power politics of accession.

While all eyes are fixed on the fate of the Doha Round, it is important to recognize that most of what the South is rejecting has already been forced, arrogantly and invisibly, onto some of the world’s smallest, poorest and most vulnerable countries.

Vanuatu is a group of 83 islands with 200,000 people. Samoa has a population of 177,000 and Tonga 100,000. Vanuatu and Samoa are LDCs. No one denies that these countries face enormous challenges. They are typical of small, geographically isolated and environmentally vulnerable island states.(7) The majority of their people are subsistence farmers.(8) Tariffs provide between one fifth and almost half of government revenue.(9) They run chronic and growing trade deficits.(10) They export a small number of commodities,(11)assisted by prefer-

ential access to Australia and New Zealand under SPARTECA and the EU under Cotonou that is now eroding. The main services “trade” is tourism, and for Vanuatu offshore banking.(12) In recent years, imported cheap and low quality food has undermined local self-sufficiency. Population growth rates are high. HIV/AIDs infection is growing, as are lifestyle diseases such as diabetes and heart disease. Inequality has become more noticeable, especially between rural and urban communities. Families depend heavily on remittances.(13) Their political situation is relatively stable in a relatively unstable region, but each has had its controversies. Like other members of the Pacific Islands Forum, they depend heavily on the patronage of Australia and New Zealand who aggressively protect their “patch”.(14) As “The Australian” newspaper put it: “Australia is often said to be the superpower of the South Pacific. If so, then New Zealand is certainly the second, with Wellington playing London to Canberra’s Washington.”(15)

The long, torturous path of accession Vanuatu completed its accession in 2001, after six tortuous years - only to put it on hold, citing “technical reasons”, days before the Doha ministerial. Stepping back from the pressure, the Treasury and politicians believed they had given away too much.(16) Recently, Vanuatu has begun to reactivate the process,(17) but wants to reopen the bilateral phase, especially on the far-reaching services offer on wholesale and retail trade, health, environmental, audiovisual, legal, professional and technical services it was bullied by the US into making.(18) They also want guaranteed rights to the TRIPS health waiver. There does not seem to be any legal basis for revisiting an accession package that has been signed off on, which leaves Vanuatu to the mercy of the General Council.(19)

Tonga began its process in 1996 and has bilaterals with the US and EU yet to do. Samoa applied for accession in 1998 and is, to quote, “taking its time”. Like all acceding countries,(20) they have faced outrageous demands for WTO-plus commitments from the self-nominated members of their Working Parties.(21) Samoa’s senior trade consultant objects that the right of veto means there are no negotiations: “They can ask for all sort of commitments which Samoa isn’t in a position to offer. If they insist, there are two options: we will never become a member or we have to give in to that request.”(22)

The Islands, like Cambodia and Nepal before them, are pawns in a global chess game that has nothing to do with their needs or the harm that would result if they gave in. (23) It is about creating precedents that provide leverage in multilateral negotiations or important accessions. Each favourable new precedent sets a progressively higher benchmark. The most pressing demandeurs have been Australia, New Zealand and the EU - plus the US, even though it barely trades with the Islands. The US has focused on tariff bindings, GATS (services), TRIPS (intellectual property), TRIMs (investment) and procurement, (24) while the Cairns Group members New Zealand and Australia target tariff bindings, export subsidies, domestic support and special safeguards measures for agriculture. (25) The Europeans have reportedly made fewer demands on the Pacific, but their turn will come when negotiations for a Pacific Regional Economic Partnership Agreement (REPA) under Cotonou begin later this year. (26)

Because the process is shrouded in secrecy, critics and analysts - let alone parliamentarians and citizens - have no idea of what is at stake. Fortunately, the Vanuatu case is now well-documented; (27) similar secrecy will be difficult next time around, especially as it may become an election issue later in the year. (28) Some information is slowly emerging on Tonga and Samoa; NGOs and the media are asking questions, especially in Samoa. (29) But there are no proper social impact studies and no open public debate about the kind of development they are being locked into. Let me give a couple of examples.

Both Tongan and Samoan officials concede that WTO accession offers no real commercial gains. (30) Samoa currently exports all that it can and has access to "Everything But Arms" so long as that lasts. [Ed: EBA provides LDCs with zero tariff, zero quantitative restriction access to the EU markets for "everything but arms". However, restrictions still apply to bananas, sugar and rice - three products of importance to many LDCs.] Tonga's main export barriers are small scale, limited land, access to finance, natural calamities and climatic conditions, falling commodity prices, low priced international competition, remoteness, high transport costs, insufficient expertise and advice on diversification, and onerous standards and SPS requirements from richer countries. (31) None of these will be addressed

through accession and may become worse.

New Zealand supplies around one third of Tonga's imports. About one third of that is foodstuffs. Last month, New Zealand's Trade Minister hailed the completion of Tonga's bilateral negotiations as "saving" New Zealand exporters \$6 million in tariffs. (32) Put another way, Tonga, which currently draws over 40 per cent of government revenue from border duties, will need to make up a \$6 million fall in revenue. The options are user charges, broader sales tax or a consumption tax (33) - in a country where 80 per cent of the people are subsistence farmers whose cash income is largely from remittances. (34)

Similar demands are being made of Samoa. Why? The Islands don't produce competing products domestically; Tongans and Samoans would buy the products, with or without tariffs. Trade theory reassures us that price savings will compensate. But delicensing of Australian rice imports into Vanuatu made no difference to the monopoly there, because that's how the Australian exporter likes it. Prices haven't dropped either. (35)

Indeed, there are sound development reasons for hoping that the prices won't fall. Around one third of New Zealand's meat exports into the Pacific are a fatty waste product known as "mutton flaps". A 2001 World Health Organisation report drew explicit links between dependence on imported foods, especially mutton flaps, diet-related disease and trade liberalisation. (36) It found that, despite effective education and awareness programmes, people were making economically rational, but nutritionally detrimental, decisions to eat less healthy foods because they were cheap and available. That year Fiji, a WTO Member, announced a ban on mutton flaps, citing proven links to obesity; New Zealand threatened action at the WTO. (37) Tonga then urged the New Zealand government to end mutton flap exports and encourage a return to healthier traditional diets, such as fish, organic chicken (38) and taro that simply can't compete in Tonga's small domestic market. One New Zealand MP replied that Tongan businesses had the right to decide what to import. (39) At the same time, one of New Zealand's aid (NZ AID) priorities is to fund health programmes in Tonga.

The direct socio-economic impacts are more obvious. US demands that Vanuatu immediately reduce its tariffs to 15-25 per cent would, to

quote officials,

“...have thrown Vanuatu’s tiny private sector into competition with globally competitive neighbouring economies and probably would have made many businesses bankrupt... [I]n Vanuatu the closure of even one major company would constitute a major blow to employment and aggregate economic growth. WTO entry could be expected to raise unemployment over the short term in manufacturing, construction, retail and wholesale, hotels and restaurants, and finance and insurance. Together these sectors comprise 47 per cent of employment.” (40)

In agriculture: “It is likely that the swift abolition of price supports to the majority of farmers who live in outlying islands would have left them without any income.”

Other issues, such as the affordability of medicines for life threatening disease, ecological sustainability through local processing of timber or fish, (41) survival of small local shops faced with growing numbers of foreign wholesalers, and the retention of land in customary ownership - which is a Constitutional guarantee in Vanuatu (42) - have the potential to make or break governments, as well as decide the future of their societies. (43)

The price of accession is intolerable in another way. Tonga says it gravely under-estimated what was involved. (44) There are simply not the people to do all the work, however far they stretch themselves. Vanuatu estimates the process costs US\$150,000, including US\$20,000 a year cost for observer status at the WTO - which is the entire budget of the Department of Trade. By the end, Vanuatu owed the WTO US\$170,000 in unpaid fees. (45) The government’s total annual expenditure is just US\$60 million. Once a member there are the costs of participation (46) and the burden of implementation (notably standards and quarantine) with threats of enforcement if they “fail”. (47)

That is just for the WTO. At the same time, the Islands will have to manage negotiations with the EU for a Pacific REPA before the end of the year that are more extensive than the WTO, and include the “Singapore issues” of trade facilitation, investment, competition and transparency in government procurement. Plus, Australia and New Zealand insist that once the

REPA negotiations begin, the Islands must enter into parallel negotiations under the “Pacific agreement on closer economic relations” (PACER). Australian Prime Minister Howard has signaled the end game - a full “EU-style” Pacific economic community, including a common currency and pooled governance and security arrangements, which of course Australia would lead. (48)

It is time to challenge those countries whose abusive practices are protected by the shroud of secrecy. New Zealand and Australia proclaim a special relationship with the South Pacific. But, as one New Zealand government representative frankly admitted to me: “When it comes to trade, there is no special relationship to the Pacific. They [the negotiators] do a group hug, then put their Geneva hats on.” (49) Australia and New Zealand reportedly threatened to cut off technical assistance to Vanuatu’s agricultural sector, which helps fund its diversification programme, unless it abandoned rights to use price supports, special safeguard measures and export subsidies, (50) and claimed that “Uruguay Round methodologies are not available to acceding countries.

The lead came from the top. Former Director General Mike Moore proclaimed in a video-link to the first Trade Policy Course for Pacific Island countries run by the WTO and Forum Secretariat in March 2001,

“It is my duty as Director-General to ensure you receive all the necessary and possible technical support to accelerate your applications. I will also work to ensure that undue pressure beyond the established rules is not placed on acceding countries.” (51)

Yet, one account says Moore’s Secretariat (52) warned Vanuatu that its accession would be denied unless it gave into US demands and took strong commitments on wholesale and retail trade, after which the negotiators changed course. (53)

There is no tolerance for contestable advice. In October 2003, The Guardian revealed a letter in which a senior British trade official and a London-based New Zealand diplomat discussed plans to monitor a Commonwealth Secretariat official at the Cancun ministerial and the need to ensure his contract was not renewed. (54) The official, Roman Grynberg, had given critical advice to Southern governments about the Doha

Round and written numerous papers on the risks that such negotiations posed for the Pacific Islands. (55) He had been intimately involved in Vanuatu's accession and was blamed for the Islands reluctance to include Australia and NZ in a regional trade agreement. A colleague working in Geneva was also reportedly targeted for giving "unhelpful" advice to the LDCs.

The "Dracula principle" of bringing daylight to bear on such behaviour can only achieve so much. In a recent report prepared for Pacific NGOs entitled "Big Brothers Behaving Badly", (56) I exposed the tactics of Australia, often backed by New Zealand, which led to the PACER agreement. These included the familiar ploy of bypassing the more informed negotiators to pressure the politicians in the capitals. Small teams of officials were deluged with technical proposals they had no capacity to process. The Pacific response to the aggressive style of Australia and New Zealand was silence, which was interpreted as consensus. There was also full frontal bullying - shouting at, berating and intimidating officials, negotiators and consultants. One New Zealand consultant said:

"The public behaviour of the Australian officials at some of the meetings was appalling. ... Their private behaviour, at its worst, descended to levels that I regard as totally unacceptable. The whole experience was stressful and demoralizing for me, let alone for the Pacific Islands negotiators. There were times that I felt ashamed to be a New Zealander; I was just pleased that I was not an Australian." (57)

Trade Minister Jim Sutton's countered that Australia and New Zealand had behaved "impeccably", then let forth a stream of personal abuse that proved the point. (58)

Similar attitudes flow through the accessions, although apparently New Zealand's behaviour has improved since the PACER report was released. But that doesn't alter the substance. To quote the Samoan's adviser:

"The unfortunate thing about the United States is they are very arrogant and treat every country the same... One would expect that Australia and NZ will understand about us more.... If New Zealand should insist that our binding rate should be zero ... what happens then is Samoa or the Government will have to decide whether the price of joining WTO is too high - it is as simple as that. Eventually it will

be up to the Government to make that decision. If we negotiate, we have a mandate but if what the country is asking of us is outside of the mandate and we cannot negotiate, then it's time off. ... We are going there with our eyes open. That is why we are not rushing into things." (59)

In other words, the power politics may backfire. The Pacific Islands have nothing to gain and everything to lose from joining a club that has the potential to devastate their economies, cultures and societies, and create enormous instability and turmoil in an already unstable region. Once they enter the WTO, they will be trapped within an economic paradigm of global markets that is being pushed onto the Pacific by the World Bank, (60), the Asian Development Bank (ADB) (61) and IMF, (62) and that is profoundly anti-development and anti-democratic. Those who advocate this model on behalf of the institutions see this as the real benefit of WTO accession.

By "locking in" such reforms internationally, WTO accession provides governments with a defence mechanism against future policy backsliding or "de-liberalization" in response to domestic protectionist pressures". (63) "Sensible" governments would realise the need for reforms; "super-sensible" governments would implement reforms that exceed WTO requirements.

Grynberg, by contrast, questions the inappropriateness of these policies for the Islands and doubts they are stable or strong enough to weather the severe political and economic consequences of the very long and difficult transitions that these policies would require. (64) Others of us are convinced that there is already enough evidence that this paradigm has failed the people of the Pacific. (65) It is not a question of whether these Islands can afford to say "no" to the WTO. They cannot afford not to.

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#### Notes

1. Article XII of the Marrakesh Agreement Establishing the World Trade Organisation states: 'Any State or separate customs territory possessing full autonomy in the conduct

of its external commercial relations or for the other matters provided for in this Agreement and the Multilateral Trade Agreement may accede to this Agreement, on terms to be agreed between it and the WTO:

2. Retzlaff (2002)

3. Dhaka Declaration of the Second LCD Trade Ministers' Meeting 2003 (WT/L/521)

4. Grynberg and Joy, (2000) p.172

5. Decision of the General Council on Streamlining Accession of the LDCs, dated 10 December 2002 states: 'WTO Members shall exercise restraint in seeking concessions and commitments on trade in goods and services from acceding LDCs, taking into account the levels of concessions and commitments undertaken by existing WTO LDC Members'; and 'Acceding LDCs shall offer access through reasonable concessions and commitments on trade in goods and services commensurate with their individual development, financial and trade needs, in line with Article XXXVI.8 of GATT 1994, Article 15 of the Agreement on Agriculture, and Articles IV and XIX of the General Agreement on Trade in Services'.

6. Paragraph 42 of the Doha Declaration states that: Accession of LDCs remains a priority for the Membership. We agree to work to facilitate and accelerate negotiations with acceding LDCs. We instruct the Secretariat to reflect the priority we attach to LDCs' accessions in the annual plans for technical assistance. The draft Ministerial Texts for Cancun said: 'We continue to attach great importance to concluding accession proceedings as quickly as possible and, in particular, to accelerating the accession of least-developed countries. In this regard, we reaffirm the guidelines to facilitate the accession of LDCs adopted by the General Council on 10 December 2002'.

7. see FAO (undated)

8. The Samoan government reports that village studies show 78% of families in urban villages have one waged worker, compared with 37% in other locations: Samoa (2003). Gay and Joy (undated) estimate that 80% of Vanuatu's population depend on subsistence farming, with the cash economy centred in two towns

9. Samoa receives about 20% of revenue from tariffs, while approx 46% of the Tongan government revenue is from customs duties and the Port and Services Tax.

10. Tonga 2002: merchandise exports US\$9 million; merchandise imports US\$70 million; Samoa 2002 exports ST\$46,284; imports ST\$454,227

11. Vanuatu depends largely on copra, cocoa, cattle, forestry, with fishing, offshore financial services and tourism; Tonga on agriculture (squash, vanilla), tuna fishing, tourism; Samoa on fish, beer, taro and garments.

12. All three islands have been accused of 'harmful tax competition' by the OECD and have taken some regulatory steps in response.

13. It is believed that more Samoans and Tongans now live outside the countries than in them.

14. Tonga, for example, received \$US5.5 million from Australia and \$NZ2.3 million from New Zealand in aid. The 2004 Australian budget has injected A\$432 million into the AUSAID budget; A\$208 million will be spent on police and military operations in Solomon Islands and Papua New Guinea, most of which will boomerang back to Australian government agencies. AIDWATCH (2004)

15. The Australian, 25 August 2003

16. Vanuatu is one of three Pacific Island countries that has also chosen not to join the regional free trade agreement among the islands (PICTA) or PACER with Australia and New Zealand, even though the Parliament has passed the necessary legislation.

17. Government of Vanuatu (2004). The IMF has been pressing for this; IMF (2002)

18. Vanuatu's extensive services commitments covered professional services; basic and value-added telecom, environmental, wholesale, retail, insurance, banking, hotels and restaurants, primary, secondary, higher, adult and other education, sewage, refuse disposal, sanitation and similar, general construction for buildings.

19. Apparently, a letter was circulated by the General Council on the Vanuatu accession in early May 2004 but its content has not been made public.

20. Charveriat and Kirkbride, (2003); Adhikari and Dahal, (undated)

21. 15 WTO members and observers attended Tonga's first Working Party meeting: Australia, New Zealand, Japan, India, Mexico, European Commission (on behalf of the 16 Members of the EU, US, Canada, Hong Kong China, and Observers: Chinese Taipei, WIPO, UNCTAD, World Bank and IMF. Government of Tonga (2001)

22. Interview with Tuala Falani Chan Tung, Sunline, April 2004

23. Recently, for example, the New Zealand Trade Minister has confirmed that export interests are the sole consideration in its requests for education services. Written parliamentary question 06455(2004) 25 May 2004

24. Vanuatu's Suspended Accession (undated); Charveriat and Mary (2003)

25. DFAT (undated) is reasonably coy about the position, but makes no reference to the position of LDCs; actual achievements are described in DFAT (2000)

26. For similar issues in relation to the Caribbean, see Lewis (2002)

27. Hayashi (2003); Grynberg and Joy (2000); D. Gay and R. M. Joy (undated) 'Vanuatu', UNESCAP: Bangkok; UNCTAD (2003)

28. This is a politicised issue. In June 2003 Opposition leader Willy Jimmy expressed doubts that resurrecting the accession was in the national interest.

29. O'Fa(2004); Interview with Tuala Falani Chan Tung, Sunline, April 2004

30. O'Fa (2004): he suggests that any potential benefits will depend on the policy reforms that accession puts in train.

31. O'FA (2004); Interview with Tuala Falani Chan Tung, Sunline, April 2004

32. Hon Jim Sutton, 'NZ signs WTO accession agreement with Tonga', 8 March 2004

33. Tonga has introduced a tax reform bill but it will be difficult to implement.

34. ITC (2004)

35. Grynberg and Joy (2000) fn 9

36. Evans (2001)

37. Government of Fiji (2001)

38. A ban on imported, often low quality, chicken to promote an infant industry of organic chicken became a politically charged issue and seems not to have been enforced. 'Ban on imported chickens never respected', 19 September 2003, [www.news.vu/en/news/national/667.shtml](http://www.news.vu/en/news/national/667.shtml)

39. Choudry (2002)

40. Gay and Joy (undated), p. 299, 296

41. Grynberg reports that the WTO objected to measures by PNG and Solomon Islands to move away from exports of unprocessed raw materials as an undesirable departure from comparative advantage, leaving them to export unprocessed forest and marine products while other countries processed them. He observes 'It is difficult to imagine a policy prescription that is more odious to Pacific island policy makers'. R Grynberg (undated)

42. Vanuatu's post-Independence Constitution says "All land in the Republic belongs to the indigenous custom owners and their descendants". Investors have 75 year

leases and this seems to cause few real problems.

43. Commentator Vincent Boulekone explains that customary land tenure is also seen as the main source of social security protection, including 'pensions': 'Our people will be welcomed by their ancestral villages where custom and solidarity remain strong, at least outside the urban zones. But the question is: what is going to happen if, as recommended by the WTO and other international organizations, all the community lands have been registered for the profit of a few individuals in each clan and tribe? The 'unproductive persons' will have no option, after many years of work, but to remain in urban zones, and we all know what this would mean regarding social and ethnic conflicts. Just as in Africa, or in the Solomon Islands, the deterioration of life, even the possibility of wars, will inevitably cause civil unrest following the take-over of power by a dominant population from other islands.'

44. According to Tonga's Trade Policy Unit: 'As is to be expected, Tonga has found the accession process to be cumbersome and tedious with human and institutional constraints prolonging the exercise. The true extent of the work involved was however not appreciated by Tonga at the beginning of the process. The extensive workload has been compounded by the fact that reform required for WTO accession has coincided with whole scale governmental reform.' O'Fa(2004) Ahikari and Dahal report that Nepal was required to answer some 365 questions, 24 on economy, economic policies and foreign trade, 178 on the framework for making and enforcing policies affecting foreign trade in goods and services, 114 on trade-related intellectual property rights regime and 48 on trade-related services regime. Adhikari and Dahal, (undated) p.3

45. World Bank economists have estimated that implementation of quarantine, standards and customs systems can cost the whole years' development budget of a least developed country. M Finger and Schuler,(2000). They warn that poor implementation may result when governments do not feel a sense of ownership and 'attempts to force implementation through the WTO settlement mechanism would likely reinforce the impression that the WTO rules are imperially imposed from the outside, for the benefit of the outside', p.513

46. One former US official observed 'I think it is crazy to force a country like Vanuatu to spend years negotiating accession to the WTO when we already know that at the end of the day, Vanuatu won't be represented in WTO meetings in Geneva.' His solution was to formalize the imbalance of power by a two-tier WTO. Stoler (2003)

47. One AUSAID paper puts the figure for implementing WTO related reforms at US\$400 million, but that sounds excessive. (AUSAID, 2003) Australia and New Zealand are obliged under PACER to fund a Regional Trade Facilitation Programme but signing of the Memorandum of Understanding has been deferred twice now because of major disagreements over the amount they will provide. In July 2003, Australia announced A\$500,000 'to assist small nations, including Pacific Island states to develop sufficient institutional capacity to further their trade interests at the WTO'. Australia had already provided initial funding of A\$176 million in 2002 for the Agency for International Trade Information and Cooperation (AITIC), As Shefali Sharma observed in 2003 'No amount of technical assistance in implementing policies that, in effect, handicap and shackle developing countries in the WTO can improve gains towards development'.

48. That goal has recently been endorsed by the ADB (2004).

49. Kelsey, (2004), p.30

50. The right to use Special Safeguard Measures under Art

5 of the Agreement on Agriculture (AoA) must be reserved at the time of accession. Art 15 of the AoA exempts LDCs from commitments to reduce price support.

51. Moore (2001)

52. The Secretariat's mandate to work for existing WTO Members leads Grynberg et al to suggest it has a conflict of interest in accessions, Grynberg et al (2002)

53. Hayashi (2003) One informal source suggests the Secretariat played an even more direct role. Grynberg and Joy also note the conflict of interest for a Secretariat that is there to serve its existing members.

54. The Guardian, 12 October 2003

55. R. Grynberg (undated); Grynberg et al (2002)

56. Kelsey (2004)

57. Kelsey (2004), p.16

58. 'Sutton Attacks Kelsey Personally', 5 April 2004, [www.scoop.co.nz](http://www.scoop.co.nz)

59. Interview with Tuala Falani Chan Tung, Sunline, April 2004

60. World Bank (2002)

61. Outlined most recently in ADB (2004)

62. In Vanuatu, accession was strongly linked to the Comprehensive Reform Programme the ADB insisted on in 1998. Gay and Joy (undated) p.287

63. Bosworth and Duncan (undated), p.10

64. 'What is not accepted is that some island states may be so small, isolated and vulnerable that it is difficult to imagine what combination of internal adjustment policies would induce substantial domestic or foreign investment. Many SVEs suffer from very high operating costs stemming not from policy induced measures but from the inherent nature of small, isolated and physically dispersed economies'. Grynberg (undated)

65. These are comprehensively documented in Slatter (2004); see also Slatter (2003)

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