

Genoa 2001

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Global South

Genoa and the multiple crises of globalization

*By Walden Bello**

Genoa is a name associated with the emergence of capitalism in Europe six centuries ago. Genoa may also now become a symbol of the crisis of corporate-driven globalization.

The siege that thousands of protesters are planning to mount on the Group of Eight's annual summit in that historic Italian city in the third week of July has become emblematic of the global state of siege that now surrounds the key institutions of the global economy and global politics.

The historical context of the coming meeting is that in a little over a decade, the system of global capitalism has passed from triumph to crisis. As the world stands on the brink of a deep recession, it would be useful to reflect on some of the key dimensions of this historic transition-on the multiple crises wracking the globalist project.

The last decade of the twentieth century began with the resounding collapse of the socialist economies of Eastern Europe and a lot of triumphalist talk about the genesis of a new market-driven global economy that rendered borders obsolete and rode on the advances of information technology. The key agents of the new global economy were the transnational corporations, which were depicted as the supreme incarnation of market freedom owing to their superior ability to bring about the most efficient mix of land, labor, capital, and technology.

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Midway in the decade was born the World Trade Organization (WTO), which was painted by partisans of globalization as providing the legal and institutional scaffolding for the new global economy. By creating a rules-based global system grounded in the primordial principle of free trade, the WTO would serve as the catalyst of an economic process that would bring about the greatest good for the greatest number. It was the third pillar of a holy trinity that would serve as the guardian of the new economic order, the other two being the International Monetary Fund (IMF), which promoted ever freer global capital flows, and the World Bank, which would supervise the transformation of developing countries along free market lines and manage their integration into the new world economy.

Multilateralism in crisis

Yet even as the prophets of globalization talked about the increasing obsolescence of the nation-state and the growing irrelevance of national interests, the main beneficiary of the new post-Cold War global order was the United States. Though it was supposedly a mechanism for freer trade, the WTO's most important agreements promoted monopoly for US firms: the Trade Related Intellectual Property Rights Agreement (TRIPs) consolidated the hold over high-tech innovations by US corporations such as Intel and Microsoft, while the Agreement on Agriculture institutionalized a system of monopolistic competition for third-country markets between the agribusiness interests of the United States and the European Union.

When the Asian financial crisis engulfed countries that had been seen by many in the US business and political elites as America's most formidable competitors, Washington did not try to save the Asian economies by promoting expansionary policies. Instead, it used the IMF to dismantle the structures of state-assisted Asian capitalism that had been regarded as formidable barriers to the entry of goods and investments from US transnationals that had been clamoring vociferously for years to get their piece of the "Asian miracle." It was less the belief in spreading the alleged benefits of free trade than maximizing geo-economic and geo-strategic advantage that lay behind US support for the policies of the IMF, the World Bank, and the WTO. As Chalmers Johnson has noted, a good case can be made that Washington's opportunistic behavior during the Asian financial crisis reflected the fact that "having defeated the fascists and the communists, the United States now

sought to defeat its last remaining rivals for global dominance: the nations of East Asia that had used the conditions of the Cold War to enrich themselves."¹

Acting to achieve its interests under multilateral cover was the preferred US strategy for most of the post-war period, whether it was the Bretton Woods institutions, United Nations, or the Group of Eight that provided the framework for "hegemonic leadership." Yet when these institutions got in the way of US interests, Washington did not hesitate to act unilaterally. This was increasingly the case in the 1990s, with the removal of the incentives for multilateral behavior posed by Soviet competition.

The instrumental use of multilateral agencies was stark when it came to the UN. While using the United Nations to provide cover for its policy of isolating Iraq, Washington also refused to pay its dues to the UN for not kowtowing wholeheartedly to US policy. Or it simply disregarded the UN when it could not get a mandate and proceeded to work its will through more pliable institutions, as it did when it resorted to NATO cover for the bombing of Yugoslavia during the Kosovo conflict.

The G-8 (then G-7, without Russia) emerged in the 1970s to provide a mechanism for more multilaterally-shared decision-making among the advanced capitalist countries, especially in economic matters. Yet, especially under the administration of George W. Bush, Washington has embarked on a unilateralist course that has brought it to sharp conflict with other members on the burning issues of climate change, missile defense, and reconciliation between the two Koreas. The brusque junking of a painstakingly negotiated agreement, the Kyoto Protocol on Climate Change, marks a new low in unilateralist behavior, and its contribution to eroding the European Union-United States alliance that has served as the foundation of Western hegemony in the last 50 years cannot be underestimated.

Legitimacy crisis

Increasing resort to unilateralism and the brazen manipulation of multilateral mechanisms to achieve hegemony by the United States was a key source of the crisis of legitimacy that began to grip the global order in the late 1990s. But equally important as the erosion of multilateralism as a source of de-legitimization was the spreading realization that the system could not deliver on its promise. That the system could not create prosperity for all but only the illusion of it was something that many observers had known for sometime.

However, the realities of growing global poverty and inequality were neutralized by the high growth rates and the prosperity of a few enclaves of the world economy, like East Asia in the 1980s, which were (mistakenly) painted as paragons of market-led development. However, when the Asian economies collapsed in 1997, the follies of neoliberal economics were brought to the fore. All talk about the Asian financial crisis being caused by crony capitalism could not obscure the fact that it was the liberation of speculative capital from the constraints of regulation, largely in response to pressure from the International Monetary Fund (IMF), that brought about Asia's collapse. The IMF also came under severe public scrutiny for imposing draconian programs on the Asian economies in the wake of the crisis-policies that merely accelerated economic contraction, saved foreign banks and speculative investors, and restructured economies along "American lines."

The IMF's role in East Asia triggered a fresh reexamination of its role in imposing structural adjustment programs in much of Africa, South Asia, and Latin America in the 1980s, and the fact that these programs had, as they did in Asia, exacerbated stagnation, widened inequalities, and deepened poverty now became widely realized-so much so that the IMF, in a desperate effort to exorcise its record, felt compelled to change the name of the extended structural adjustment fund facility (ESAF) into the poverty reduction and growth facility prior to the World Bank-IMF annual meeting in Washington in September 1999.

The Asian financial crisis triggered the unraveling of the legitimacy of the IMF. In the case of the WTO, the situation was even more dramatic. In the last five years of the decade, growing numbers of people and communities began to realize that in signing on to the WTO, they had signed on to a charter for corporate rule that enshrined what consumer advocate Ralph Nader called the principle of "trade uber alles," or corporate trade above equity, justice, environment, and most everything else we hold dear. Many developing countries discovered that in signing on to the WTO, they had signed away their rights to development. The many streams of discontent and opposition converged in the streets of Seattle and the meeting rooms of the Seattle Convention Center in December 1999 to bring down the third ministerial of the WTO and trigger a severe institutional crisis from which the organization has yet to recover.

The World Bank, under the leadership of Australian-turned-American James Wolfensohn, appeared to be charting a course that would allow it to escape the damage inflicted on its sister institutions, until it was subjected to fire in early 2000 from an unexpected quarter: the Meltzer Commission. Ever since he took over as chief of the institution in the mid-1990s Wolfensohn had managed to defuse criticism through very skilled public relations work and co-optation of non-governmental organizations (NGOs). But when the same criticisms that had been made by people from the left were made by a commission created by the US Congress, the game was up. Headed by conservative academic, Alan Meltzer, the commission concluded that the Bank's performance when it came to addressing its avowed goal of eliminating global poverty was miserable and that it would be better to devolve the task to regional bodies.

Not surprisingly, in the face of criticism coming from left to right, reform of the multilateral system has been prominent in the rhetoric of the multilateral agencies and the G-8 governments that are their most powerful backers. Debt forgiveness, a new global financial architecture, and reform of the decision-making structures of the WTO and Bretton Woods twins have been among the high-profile issues on which expectations of change were promoted.

These initiatives have, for the most part, proved disappointing, with little in the way of concrete action. The most prominent reform initiative, the G-8's plan to lighten the servicing of the external debt of the 41 highly indebted poor countries (HIPC), has actually delivered a debt reduction of only \$1 billion since it began in 1996-or a reduction of their debt servicing by only three percent in the past five years!

When it comes to the question of the international financial architecture, serious discussion of controls on speculative capital like the Tobin tax has been avoided. An unreformed IMF continues to be at the center of the "firefighting system." A preemptive, pre-crisis credit line at the Fund (which no country wants to use) and a toothless Financial Stability Forum-where there is little developing country participation-appear to be the only "innovations" to emerge from the Asian, Russian, and Brazilian financial crises of the last three years.

Reform of the decision-making structures of the multilateral institutions that serve as the key rule-setting and global management institutions of contemporary capitalism was also supposed to be spearheaded by the

G-8. Yet, talk about democratizing the WTO has vanished, with Director General Mike Moore saying that that the non-transparent “consensus” system that triggered the developing country revolt in Seattle in December 1998 is “non-negotiable.”² And with respect to the IMF and the World Bank, there is no longer any discussion about diluting the voting shares of the US and European Union in favor of greater voting power for the developing countries, much less of doing away with the feudal practices of always having a European head the Fund and an American to lead the Bank.

The corporation under scrutiny

By the end of the last decade of the twentieth century, in short, the triumphalism that marked the beginning of the decade had evaporated and given way to a deep crisis of legitimacy of the multilateral order. The crisis of the multilateral system was, moreover, translating into a deepening unease globally with the prime actor of globalization: the corporation.

Several factors came together to focus public attention on the corporation in the 1990s—the most egregious being the predatory practices of Microsoft, the environmental depredations of Shell, the irresponsibility of Monsanto and Novartis in promoting genetically modified organisms, Nike’s systematic exploitation of dirt-cheap labor, and Mitsubishi, Ford, and Firestone’s concealment from consumers of serious product defects. A sense of environmental emergency was also spreading by the beginning of the 21st century, and to increasing numbers of people, the rapid melting of the polar ice caps could be traced to Big Oil and the automobile giants’ continuing promotion of an environmentally destabilizing petroleum civilization, and, more generally, to the process of uncontrolled growth driven by the transnational corporations (TNCs).

Ironically, in the United States, it was during the apogee of the New Economy that the distrust of the corporation was also at its highest in decades. According to *Business Week* survey, “72 per cent of Americans say business has too much power over their lives.”³ And the magazine warned: “Corporate America, ignore these trends at your peril.”⁴

Some of the more enlightened members of the global elite took such warnings seriously, and their annual meeting in Davos, Switzerland, became the venue to elaborate a response that would go beyond the bankrupt strategy of denying that corporate-driven globalization was creating tremendous problems to

promote a vision of “globalization with compassion.” Yet, the task was formidable, for it became increasingly clear that in an unregulated global market, it was even more difficult to reconcile the demands of social responsibility with the demands of profitability. The best that “globalization with a conscience” could offer was, as C. Fred Bergsten, a noted pro-globalization advocate, admitted, a system of “transitional safety nets...to help the adjustment to dislocation” and “enable people to take advantage of the phenomenon [of globalization] and roll with it rather than oppose it.”⁵

The strategic nexus

Corporate power is one dimension of global power. But there is, equally of consequence, strategic power, and this, even more than corporate power, is concentrated in the United States. Strategic power cannot be reduced, as in orthodox Marxism, to simply being determined by the dynamics of corporate control. The US state cannot be reduced simply to being a servant of US capital. The Pentagon has its own dynamics, and one cannot understand the US role in the Balkans or its changing posture towards China as simply determined by the interests of US corporations. Indeed, in Asia, it has been strategic extension, not corporate expansionism, that has been the mainspring of US policy, at least until the mid-1980s. And, in the case of China, US capital’s desire to exploit the China market has increasingly found itself in opposition to the Pentagon’s definition of China as the Enemy, which must be headed off at the pass instead of being assisted by western investment to become a full-blown threat. In many instances, indeed, corporate power and state power may not be in synch.

Having said this, a primordial aim of the US transnational garrison state that is ensconced deeply in East Asia, the Middle East, and Europe and projects power to the rest of the globe, is the maintenance of a global order that secures the primacy of US economic interests. New York Times columnist Thomas Friedman may be wrong about the benign impact of globalization, but he is definitely on target when he asserts that:

*“The hidden hand of the market will never work without a hidden fist. McDonald’s cannot flourish without McDonnell Douglas, the designer of the US Air Force F-15. And the hidden fist that keeps the world safe for Silicon Valley’s technologies to flourish is called the US Army, Air Force, Navy, and Marine Corps.”*⁶



With the growing illegitimacy of corporate-driven globalization and the growing divide between a prosperous minority and an increasingly marginalized majority, military intervention to maintain the global status will become a constant feature of international relations, whether this is justified in terms of fighting drugs, fighting terrorism, containing “rogue states,” opposing “Islamic fundamentalism,” or containing China.

One cannot say, however, that the military structure of US hegemony is suffering as profound a crisis of legitimacy as that which has gripped the processes and institutions of corporate globalization. The US military structure remains solidly rooted in both Europe and Asia, and the reason it remains so is to be found at the level of the ideological: the deep-seated fear of both European and Asian elites that without the US to serve as a “benevolent hegemon,” they would not be able to create by themselves benign regional orders that would ensure the peace among themselves.

Nonetheless, this sentiment is not as strong as before. The collapse of Soviet power created the condition for a reassessment by Washington’s allies of the role of US power. Doubts have increased with the Pentagon’s insistence on building a missile defense system against potential rather than real enemies while preparing the ground for a new Cold War crusade against China. Indeed, these developments have indeed opened the eyes of many of Washington’s allies that the greatest threat to their security may now be Washington itself.

Democratic degeneration

It is not, however, corporate power or military power that is the US’s strongest asset but, following the thinking of Antonio Gramsci, its ideological power—its “soft power.”

The US is a Lockean democracy, and its ability to project its mission as the extension of systems centered on free elections to choose governments devoted to promoting liberal rights and freedoms continues to be a strong fountain of legitimacy in many parts of the world. The trend away from authoritarian regimes and toward formal democracies in the Third World happened in spite of rather than because of the United States. Yet, especially under the Clinton administration, Washington was able to skillfully jibe to catch the democratic winds, in the process reconstructing its image from being a supporter of repressive regimes to being an opponent of dictatorships.

In the last few years, however, Washington or Westminster-style democracies—or, as William Robinson calls them, “polyarchies”⁷—with their focus on formal rights and formal elections and their bias against economic equality achieved through such measures as asset and income redistribution—have degenerated into increasingly stagnant and polarized political systems, such as those in the Philippines, Brazil, and Pakistan. The World Bank and the Asian Development Bank continually talk about the plague of corruption in developing countries. It is, however, the deeper corruption that is embedded in economic and political structures that are superficially democratic but perverted by the realities of economic inequality that is the greater concern of the vast masses of people in the South.

This stagnation of Third World liberal democratic systems has been paralleled by the realization of increasing numbers of Americans that their liberal democracy has been so thoroughly corrupted by corporate money politics that it deserves being designated a plutocracy. Indeed, as William Pfaff notes, “nothing on the scale of the American system of political expenditure and influence exists anywhere.”⁸ The fact that the candidate most favored by Big Business lost the popular vote—and according to some studies, the electoral vote as well—and still ended up president of the world’s most powerful liberal democracy has not helped in shoring up the legitimacy of the political system in a country that has been described by many observers as already being in a state of “cultural civil war.”

There is also a growing crisis with democratic governance in Europe, brought on partly by the increasing captivity of party politics to moneyed interests, as the case of Helmut Kohl and the Christian Democratic Party illustrated. But there is as well another, related cause of disaffection, and this is the non-transparent process that technocratic elites allied to corporate elites have, in the name of European integration and rationalization, eroded the principle of subsidiarity by funneling effective decision-making power upwards to technocratic structures, at the apex of which stands the European Commission, that are largely unaccountable to electorates on the ground.

The crisis of overproduction

What makes the crisis of legitimacy of the key institutions of the global economic and political system so volatile from the point of view of the elites of the North is that it is intersecting with a profound structural crisis of the global economy.

The G-8 came into existence to coordinate the macroeconomic policies of the rich countries in order to navigate between the Scylla of inflation and the Charybdis of stagnation. However, in the last few years, efforts to synchronize fiscal and monetary initiatives have proved elusive, and what modicum of cooperation was achieved has failed to bring Japan out of a decade-long recession or prevent the onset of a new global recession.

The reason that the economic slowdown seems to be immune to orthodox fiscal and monetary mechanisms, even when coordinated across borders, is that structural imbalances have been building up for some time. The boom of the early and mid-nineties resulted in a burst of global investment activity that led to tremendous overcapacity all around.⁹ The indicators are stark. The US computer industry's capacity has been rising at 40 per cent annually, far above projected increases in demand. The world auto industry is now selling just 74 per cent of the 70.1 million cars it builds each year. So much investment took place in global telecommunications infrastructure that traffic carried over fiber-optic networks is reported to be only 2.5 per cent of capacity.¹⁰

Seen in retrospect, profits stopped growing in the US corporate sector after 1997,¹¹ leading firms to a wave of mergers, the main purpose of which was the elimination of competition. The most prominent of these were the Daimler Benz-Chrysler-Mitsubishi union, the Renault takeover of Nissan, the Mobil-Exxon merger, the BP-Amoco-Arco deal, and the blockbuster "Star Alliance" in the airline industry.

Another avenue that was taken to avoid the crunch of profitability in industry was to push investment to speculative activity, notably to the stock market and the real estate sector, leading to the spectacular boom and bust in East Asia in the 1990s.¹² It was this same hothouse speculation that underpinned the Wall Street-Silicon Valley complex that drove the US economy and the global economy in the nineties. This "New Economy" seemed for a time to defy the laws of economics, with Internet stars such as Amazon.com registering an explosive and seemingly permanent rise in stock values even as they continued to operate at a loss.

But all talk about the emergence of a New Economy vanished when the law of gravity caught up with the speculative sector in late 1990s, resulting in the wiping out of \$4.6 trillion in investor wealth in Wall Street, a sum that, as Business Week pointed out, was half of the US Gross Domestic Product and four times the wealth wiped out in the 1987 crash.¹³

Two things about this structural crisis, in short, are increasingly clear: it is no ordinary bust and it comes at an extraordinary time of great popular disaffection with the globalist project and its key institutions.

The global protest movement

In retrospect, with the deepening crisis of legitimacy of the prime institutions of the global system in the latter half of the 1990s, Seattle was a cataclysm that was waiting to happen. The force of pent up global rage went on to manifest itself in Washington during the World Bank-IMF spring meeting in April 2000, in Chiang Mai, Thailand, during the Asian Development Bank annual meeting in May 2000, in Melbourne during the World Economic Forum gathering in early September 2000, and in Prague during the World Bank-IMF annual meeting in late September 2000.

While the global elite assembled in Davos in late January 2001 to ponder the meaning of the burgeoning "anti-globalization movement," some 12,000 representatives of civil society organizations and political movements met in Porto Alegre, Brazil, to declare that "another world is possible." The World Economic Forum had found its political and ideological nemesis in the World Social Forum. Celebration of the power of the movement was one aspect of Porto Alegre; the other was the gathering of energies for the next move. That move was directed at the Summit of the Americas in Quebec City in late April 2001, which had been called to push forward a key project of the US corporate elite, the Free Trade Area of the Americas (FTAA). Despite the effort of some of the established media to portray the protesters as either uninformed or anarchists, the confrontation in Quebec, like Seattle, was a major setback, in terms of legitimacy, for the system of corporate-driven globalization. So was the clash with 20,000 protesters that grabbed the center stage during the European Union summit in Gothenburg three weeks ago.

Genoa : next stop in the anti-globalization express.

To contain the anti-globalization shock troops that are now on the road headed for Genoa, nervous Italian authorities are deploying 20,000 police and troops, backed up by 15 helicopters, four aircraft, and seven naval boats. In a sign of panic, the government has announced that it will close Genoa's airport between July 18 and 22 and seal off a "red zone" in the inner city that will be kept free of demonstrators.

Undaunted, protest organizers say they will bring 200,000 people to Genoa and that they will definitely breach the red zone. They may yet make Genoa the most dramatic example of the mass “withdrawal of consent” that is shaking the system of global capitalism to the core.

One must not, of course, overestimate the impact of these protests so far, nor gloss over their weaknesses in terms of shared agenda or decision-making. However, neither must one underestimate their consequences. C. Fred Bergsten, one of the most ardent promoters of the Washington Consensus, now admits that “the anti-globalization forces are now in the ascendancy.”¹⁴ Bergsten is haunted by a “Gramscian” fear: the structures of the system may appear to still be solid, but when legitimacy or consensus goes, it may only be a matter of time before the structures themselves begin to unravel, especially when one factors in the crisis of overproduction noted above, with the recession, unemployment, and increases in poverty and inequality that will come with it.

The future in the balance

Yet the crisis of the system will not necessarily result in its replacement by a more benign system of international relations. As Rosa Luxemburg so presciently pointed out before the rise of fascism in crisis-ridden Europe in the early part of the 20th century, the outcome may be “barbarism,” where the ideals and themes of the progressive opposition are hijacked and perverted by demagogic forces that are hostile to freedom, equality, and democracy. Which is why the articulation of the alternative or the alternatives is so critical. Creating these alternative visions and programs centered on a participatory process to create the institutions that would once again subordinate the market to society, promote genuine equality across gender and color lines and within and among countries, and establish a benign relationship between human community and the biosphere remains the great challenge of the opponents of corporate-driven globalization.

On the success of this enterprise depends a future that now hangs in the balance.

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- ¹ Chalmers Johnson, *Blowback: The Costs and Consequences of American Empire* (New York: Henry Holt and Company, 2000), p. 206.
- ² Michael Moore, speech at UNCTAD X, Bangkok, Feb. 15, 2000.
- ³ “Too Much Corporate Power,” *Business Week*, Sept. 11, 2000, p. 53.
- ⁴ “New Economy, New Social Contract,” *Business Week*, Sept. 11, 2000, p. 80.
- ⁵ C. Fred Bergsten, “The Backlash against Globalization,” speech delivered at 2000 meeting of the Trilateral Commission, Tokyo, April 2000 (downloaded from Internet).
- ⁶ Thomas Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus Giroux, 1999), p. 50.
- ⁷ See William Robinson, *Promoting Polyarchy: Globalization, US Intervention, and Hegemony* (Cambridge: Cambridge University Press, 1996).
- ⁸ William Pfaff, “Money Politics is Winning the American Election,” *International Herald Tribune*, March 11-12, 2000, p. 8.
- ⁹ See, among other analyses, Robert Brenner, “The Economics of Global Turbulence,” *New Left Review* 229 (May-June 1998) and A. Gary Shilling, *Deflation* (Short Hills, NJ: Lakeview Publishing Co., 1998).
- ¹⁰ “Too Much of Everything,” *Business Week*, April 9, 2001, pp. 74-76.
- ¹¹ John Plender, “Falling from Grace,” *Financial Times*, March 27, 2001, p. 14.
- ¹² Ravi Arvind Palat, “Miracles of the Day Before?: The Great Asian Meltdown and the Changing World-Economy,” *Development and Society*, Vol. 28, No. 1 (June 1999), p. 40.
- ¹³ “When the Wealth is Blown Away,” *Business World*, March 26, 2001, p.33.
- ¹⁴ Bergsten “The Backlash against Globalization...”.



A new round by any name spells disaster for the South

By Aileen Kwa*

“The developed countries have been saying it would be a development Round. But when you see what they are putting in, it has little to do with development. Rather, it is trying to limit the space of our development. So we look at the agenda, and so far, what is on offer is not acceptable to many of us”.

Nathan Irumba, Uganda’s Ambassador to the WTO, Geneva, 5 July 2001.

Developing countries are loath to launch any form of a trade negotiating round at the WTO Ministerial in Doha. However, they are under intense pressure that will only increase in the weeks leading up to the November meeting.

The developed countries - particularly the EU and to a lesser extent the US - are whipping everyone into line before Doha, desperate to prevent a repeat of Seattle. Yet, for developing countries the promises of Seattle have not materialised. Implementation issues have been discussed - endlessly - but the US and the EU have given nothing away and have shown no willingness to rectify the situation.

While the majority of developing countries are refusing to back down, their positions could easily collapse without massive civil society backing.

It is the responsibility of civil society groups in the South and the North to take up the call for “No New Round.” They should instead support the demand that the Doha Ministerial

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- limits itself to delivering on implementation issues;
- addresses key institutional questions within the organization - including the non-democratic decision-making processes, the lack of internal transparency and the marginalisation of most developing countries in Green Room-style consultations;
- launches the mandated assessments in agriculture and services before these negotiations continue further.

The stand-off between developed and developing countries reflects the fact that the non-democratic structure of the WTO - the fundamental cause of the developing country revolt in Seattle - has not been addressed and that the rich and powerful countries continue to operate non-transparently in their attempts to intimidate, divide and rule the majority.

WHO'S SAYING WHAT ABOUT A NEW ROUND?

The EU and WTO Secretariat: Carpetbaggers for a new round

The EU Trade Commissioner, Pascal Lamy, and the WTO Director General, Mike Moore, have been working overtime in the past months, garnering support amongst WTO members to get a new round off the ground in Doha.

Despite the vehement protests by developing country governments against a comprehensive round, both Lamy and Moore claim to know what is in the best interest of the South. Pascal Lamy told a recent NGO symposium that, while the EU and the US could get along without a round, “I am less sure about developing countries, particularly the poorest. My fear is that without a round, the world trade system will leave them further behind.”

In the past year, the EU has tried to “soften” (but not change) their position, arguing that a comprehensive round — which includes industrial tariffs, investment, trade facilitation, competition policy, environment and government procurement — is beneficial for developing countries. As part of the public relations drive, at the Least Developed Countries conference in May the EU committed to giving LDCs unrestricted market access (notwithstanding some

significant restrictions) in the Everything But Arms initiative. Late last year they also suggested including investment and competition as ‘plurilateral’ agreements in the WTO (that is, to be signed only by those interested). Most recently, the EU tried to appear sympathetic to developing countries concerns on TRIPs (the intellectual property agreement in the WTO). But they have yet to offer anything more tangible than sympathy.

Mike Moore, too, has been heavily criticised by governments and NGOs for crisscrossing the globe promoting a new round when this is not the position taken by all WTO members. Moore claims that “a round would help the poor and weak countries more than anyone else. The big guys can fend for themselves. But without multilateral rules, the poor are subject to the law of the jungle.”

The US: Ambitious but ambiguous

The US, in the past weeks has made great efforts to appear to take a similar position as the EU. In the senior officials meeting on 25 June in Geneva, the US and the EU gave a joint press conference calling on the WTO to launch “an ambitious round of trade negotiations at Doha.” The reality, though, is that their positions remain far apart. The US is unlikely to halt the launch of a new round, but they are certainly not demanding one. Bush seems far from likely to get the trade promotion authority (“fast track”) he would need to realistically negotiate a broad round. The most recent exposition of their position (25 June) has shown carefully and cautiously crafted language aimed to give the appearance of support to the EU, but also with large doses of ambiguity. Washington’s interests include:

- ambitious negotiating mandates for the built-in-agenda items of agriculture and services
- further development of the dispute settlement understanding with particular attention to transparency in proceedings
- market access in non-agricultural products (usually known as industrial tariffs)
- “appropriate means” to address trade facilitation, transparency in government procurement, investment and competition policy. “We are open to exploring how best to treat these topics in the context of launching the Round.”
- intersection of trade and environment issues

- “immediate and continuing efforts on implementation issues...”
- “internal transparency in the operations of the WTO and external transparency to enhance the credibility of the WTO in the eyes of public opinion.”

Also significant is the reference to the Punta del Este negotiating mandate. The US has pointed out that the declaration that launched the Uruguay Round was a fairly “simple” mandate, which enabled negotiations to begin, suggesting that this could be useful again at Doha. That is, that the negotiating mandate, as in the Uruguay Round, could be changed along the way.

The US also underlined that “the WTO can’t afford to fail a second time,” and that Washington is “cautiously optimistic that we will succeed in launching a Round at Doha.”

Implementation is the unifying issue

While there are certainly shades and differences between developing countries’ positions, one clear fact is that they are not demanding a new round. The developing countries which have come out openly in support of a comprehensive round are South Africa, Costa Rica and Chile and, less vocally, Colombia and Singapore.

The Cairns Group The Cairns Group of (agricultural exporting) developing countries are cautiously agreeing to a round, but are taking the offensive in challenging those calling for a new round to make concessions that are sufficiently significant. Their main interest is in agricultural markets, particularly in the EU where they want market access plus a firm commitment to significant cuts in their huge domestic and export subsidies.

The Like Minded Group (LMG) The LMG is an informal coalition of like-minded countries at the WTO. This group includes India, Pakistan, Egypt, Dominican Republic, Uganda, Malaysia, Indonesia and Cuba, amongst others. The group has been in existence for some years and has been coordinating positions, sometimes meeting daily when negotiations are intense.

This group can be credited with the fact that that all developing countries have rallied around the common demand for implementation issues (redressing imbalances from the Uruguay Round) to be addressed. This has been top of their agenda long before Seattle. It is also

members of the LMG, such as India and Pakistan, who have repeatedly emphasised that implementation issues must not be put in the basket of a round or developing countries would have to give more concessions in order to attain the benefits that had already been promised by the developed countries, but which never materialised.

There are of course some differences between the positions of these countries, with India and Pakistan taking strong positions against a round. Malaysia says that it is not against a round, but that the agenda for a round must be agreed by all and that the negotiating mandate must be made clear. That is, new issues must not be added on in the course of the round.

“We’re not ready for it (a new round). We’ll lose more than we’ll gain”.

Srinivasan Narayanan, India’s Ambassador to the WTO, Geneva, 26 June 2001.

African Group Many in the African Group do not want any round of any sort to be launched, however limited or manageable. Many African countries are still struggling to implement the Uruguay Round commitments, and find it incomprehensible that they would commit themselves to further, knowing that this would only bring them to dispute settlement. Indeed, despite intense pressures that have been building up, the African countries have refused to agree to the launching of a new round. This was evident at Libreville a year ago, but also during the UN LDC conferences in Brussels in May.

India: Leading the resistance?

On 14 June, India’s Minister of Commerce and Industry, Murasoli Maran, sent round a seven-page communiqué to his counterparts of the G77 highlighting India’s opposition to a new round. It included the following points:

- The EU “has been relentless in its efforts to launch a comprehensive New Round” on the basis that the Round would promise “welfare gains to all.” Maran categorically states that “There is a widely shared view that Uruguay Round of Negotiations resulted in serious imbalance and asymmetry to the detriment of developing countries.”



- “Despite the May 2000 decision of the General Council that ‘implementation issues’ should be resolved before the 4th Ministerial Conference, many developed countries are now openly stating that these implementation issues can be resolved only as part of a new round of negotiations. Most of the developing countries including India have been taking a stand that ‘implementation related concerns’ are a legacy of the Uruguay Round of negotiations and the developing countries have already paid for them by way of taking onerous obligations though not to their liking, under TRIPS, TRIMS etc and that these concerns should be resolved up-front without linking it to any new round of negotiations. We would like to stress that the resolution of the implementation related concerns requires political will and good-faith efforts on the part of the developed countries.”
- “We remain unconvinced that issues such as investment, competition, labour and environment under WTO will facilitate any additional market access or open up newer development opportunities for the developing countries.”
- “We are of the view that the WTO work should concentrate on the full implementation of the Uruguay Round results and the ‘built-in-agenda’ (agriculture and services). Other matters of priority are a) implementation of special and differential treatment as envisaged in various WTO agreements, and b) correction of imbalances in several WTO agreements including subsidies and countervailing measures, anti-dumping, TRIPS and TRIMS which have major implications for development policies and interests of developing countries...Unless the present inequalities are removed, we do not believe in the success of any Round of Negotiations’.

Trust in WTO at a low ebb

The day before the WTO NGO Symposium in early July, the LMG convened press conference to publicise their position. This was clearly a sign that they did not trust that the WTO Secretariat, who was organising the Symposium, would correctly represent the variety of positions in the organisation.

At this event, Malaysia’s Ambassador

Supperamaniam said that there was now no consensus at the WTO on the launching of a round. On implementation issues, Egypt’s Ambassador Aboulnaga said that the developing countries had already paid a price twice on their issues - once during the Tokyo Round, and the second time in the Uruguay Round and that they still had not gained or benefited. They were now being asked to pay the price a third time by going into another round, with new issues and more unkept promises. This was not acceptable.¹

“This time round, we in the LMG (Like Minded Group) think we should proceed on the basis of a realistic assessment. If by the end of July, there is no movement on issues of importance to developing countries, but convergence on other issues, the level of ambition for Doha will have to be lowered. In that event, Doha could result in some simple declaration for a work programme or other options”.

Munir Akram, Pakistan’s Ambassador to the WTO, Geneva, 5 July 2001.

Uganda’s Ambassador Irumba even said “there is a systemic issue here... The whole notion of Rounds was before the WTO was created as an organisation. Our understanding was that when it was created, it was supposed to be a continuous negotiating forum.” On the Singapore issues (investment, competition etc) that some countries are pushing, Irumba commented that ‘the developed countries have been saying it would be a development Round. But when you see what they are putting in, it has little to do with development. Rather, it is trying to limit the space of our development. So we look at the agenda, and so far, what is on offer is not acceptable to many of us’.

Indeed, at this press conference, the like-minded group ambassadors present complained of the “spin” that had been put on the issue of a round gaining consensus as a result of the position Mike Moore is taking in his personal capacity. This, they said, was not an accurate reflection of the reality.

Myths, threats and accusations abound

Northern countries, particularly the EU, and the WTO Secretariat, are spreading threats and accusations in their attempt to corner the South into accepting a round. These include:

- The WTO will collapse if a round is not launched
- This could mean going back to the “law of the jungle”
- If the multilateral system does not move in the interest of the North, the North will slowly opt out and carry out their business in another forum - regionally or bilaterally.
- Countries who close themselves up could end up like North Korea.
- “Trade is good for the poor.” If you oppose the WTO, you are opposing lifting the poor out of poverty. This particular charge is usually directed at NGOs by Northern governments (especially Pascal Lamy and the UK’s Clare Short) but also by the WTO Secretariat.

As recently as 6 July, Pascal Lamy gloomily predicted that “The WTO may go into hibernation if we do not launch the Round in Doha... it may be worse than that: sometimes hedgehogs do not survive a long cold winter.”

But developing countries at the WTO are not buying into these arguments.

India’s Minister of Commerce and Industry Mr Maran, in the communiqué sent to the G77, stated that he is “painfully aware of the veiled threat given by some of the developed country friends that if the developing countries do not agree to the launch of a new round of negotiations, then WTO would lose its relevance and regionalism would get an upper hand.” In response to such an argument, he says that these regional trading arrangements have been entered into by various countries based on “perception of their self-interests and may have nothing to do with the launch or otherwise of a new round.”

Geneva-based representatives of developing countries have repeatedly argued that the system is already overloaded. To put more onto the WTO, and without sorting out the problems in the current system, would be detrimental to achieving development objectives in the South.

Why any round would be a disaster for the South

A round of any nature, no matter how ‘limited’ or ‘manageable’ would not benefit developing countries for two reasons:

First, it would mean that implementation issues would not be addressed as stand-alone issues but would be traded-off with other new liberalisation commitments. This would obviously not redress the imbalances, but in fact exacerbate the imbalances for the South. Southern governments have repeatedly called for implementation issues to be dealt with first, and separately, from any other negotiations for precisely this reason.

Second, the US and the EU have already asked for flexibility in the negotiating mandate at Doha. The US recently called for a “mandate in general terms, like at Punta del Este” and the EU stressed that they wanted a “permissive and sufficiently open-ended and not restrictive mandate.” That is, even if the most limited of rounds is launched, these countries will certainly continue to put pressure on developing countries to include new issues along the way.

Implementation: the heart of the matter

Developed countries claim that implementation issues can only be adequately dealt with in the context of a new round. The US’ position, articulated by former US trade representative Charlene Barshefsky before Seattle, is well-known: a deal is a deal. The EU also says that while there are a few issues that can be dealt with without changing the texts, implementation issues that are of greater significance, or require changes to the language of current agreements, can only be dealt with in a round.

In fact, the General Council in the WTO does have the power to make changes to texts of current agreements. That this has not happened — despite implementation being high on the post-Seattle agenda — does not reflect any strictly legal procedural impediments but reflects the playing out of the power imbalances within the WTO which leave the South unable to make changes in areas which would impinge on the commercial interests of the major players.

Indeed, there are gaping inequities in the current Uruguay Round package. Developing country governments have identified problems in almost all agreements, from agriculture, to textiles, services, TRIMS, TRIPS, subsidies agreement, anti-dumping, technical barriers to trade, sanitary and phytosanitary agreement. Below are only highlights of some implementation problems. In particular, agriculture and textiles have been key areas which developing countries had hoped that they would gain from in the Uruguay Round package.

“A comprehensive round would lead to a comprehensive disaster”.

Indian, Pakistan and Malaysian representatives to WTO, Geneva, 25 June 2001.

Agreement on Agriculture : Six years into the WTO, despite the Agreement on Agriculture, the overall subsidization of agricultural producers in the OECD countries is much higher today than in 1995. OECD estimates that overall support levels have increased from US\$247 billion in the base 1986-88 period to US\$274 billion in 1998, to US\$326 billion by 1999. This is taking place even as developing countries are reducing their tariff levels, and therefore making themselves much more vulnerable to this unfair competition. Furthermore, the rich countries have refused to implement their promises they made to soften the impact of liberalization. The Ministerial Decision approved at Marrakech in 1994 to take measures to counteract the negative effects of trade liberalization on net food importing countries has never been implemented. Not surprisingly, the impact of this Agreement has been destructive for many developing countries, whose imports have suddenly surged, while their exports have not significantly increased, leading to a host of problems, including food insecurity, and increasingly rural unemployment and poverty. According to the FAO, growth in agriculture exports in the period 1990-97 was 3.05% per annum for developed countries and only 0.63% per annum for developing countries. On the other hand, annual growth in agriculture imports was 1.85% for developed countries

and 3.87% for developing countries during this same period.

Agreement on Textiles and Clothing : Similarly, in textiles, developed countries have failed to implement the agreement according to the spirit of the agreement. This area is of significant export interest to developing countries, but has also represented a key area whereby the rules offer the rich countries special treatment. Even though these countries have been expected to remove their quota restrictions over the 10 year transition period from 1995-2005, at present, (six years on) only a fraction of these restrictions have been removed. According to the International Textiles and Clothing Bureau in June 2000, the status quo on the removal of quota restrictions are 13 out of 750 by the US; 14 out of 219 by the EU; and 29 out of 295 by Canada.

General Agreement on Trade in Services (GATS) : In the area of services, developed countries have refused to abide by the originally set deadline to establish rules on emergency safeguards before market access negotiations in the many services sectors take place. They have also circumvented any serious discussion on the extent of subsidies they provide to their services corporations, even as they are pushing relentlessly for more access to developing countries' services markets. At the same time, developed countries are refusing to open up their own markets in the area of most interest to developing countries - service provision via the “movement of natural persons.” The imbalances of the GATS are evident in the following statistics: In 1997, services trade conducted via commercial presence amounted to US\$820 billion, while it was a mere US\$30 billion via the “movement of natural persons.”

Dangling carrots and breaking promises

Despite developing countries' efforts to stand their ground and insist on addressing implementation issues first, their capacity to resist pressures is fragile.

The process since Seattle of long negotiations on implementation but never delivering on promises, has been described by a key developing country delegate in Geneva as one of “dangling carrots before us.” Just at the moment when Southern negotiators think that they are finally going to get some results, no matter how paltry,

the carrot of moved, ever so slightly, out of reach again. This is how, despite implementation being the key area of work by the General Council in 2000, the year ended with the sum total of zero results. The US and the EU simply would not give.

To date, there are still developing country governments, such as the LMG, which are standing up for their rights and pushing the line that what is rightfully owed to them should be duly delivered.

The current standoff between the Quad countries (EU, US, Japan, Canada) and the majority of developing countries was crystallized by a mainstream WTO press reporter who asked NGOs at the launch of the campaign to oppose a new round “How do you expect implementation issues to be addressed when you do not want your governments to engage in further negotiations?”

TOP ISSUES FOR DEVELOPING COUNTRIES

Decision-making processes of the WTO : A key reason why developing countries are in a weak position is because the decision-making structure, based on consensus and the Green Room, remains unreformed. This allows the North to play a non-transparent game whose results are then passed off as consensus.

Indeed, the Green Room-Consensus system remains the key decision-making mechanism of the organization. This is despite the fact that right after Seattle, two key officials, then USTR Barshefsky and UK Secretary of State for Trade and Industry, Stephen Byers, admitted that it was undemocratic.

At the last Seattle press conference, Barshefsky said, “The process was a rather exclusionary one... The WTO has outgrown the processes appropriate to an earlier time. An increasing and necessary view, generally shared among the members, was that we needed a process which had a degree of internal transparency and inclusion to accommodate a larger and more diverse membership.” (Press briefing, Seattle, 2 December 1999).

The UK’s Trade and Industry Minister, Stephen Byers, also said that the “WTO will not be able to continue in its present form. There has to be fundamental

and radical change in order for it to meet the needs and aspirations of all 134 of its members.” (Byers, Guardian New Services, ‘Deadline Set for WTO Reforms’, 10 January 2000).

But in the past one and a half years WTO officials have been busy defending these non-transparent structures, rather than working to change them. Indeed, Philippe Legrain, Special Adviser to Mike Moore, defended this system in a recent article

“One of the myths about Seattle is that there were no Africans and hardly any developing countries in the Green Room. In fact, there were six Africans and a majority from developing countries. Moreover, any deal reached in the Green Room must still be approved by all WTO members.” (‘Should the WTO be Abolished’, Ecologist, Dec 2000-Jan 2001 Vol. 30, No.9, p. 23).

Mike Moore himself, in his speech at UNCTAD X, reiterated “The consensus system is ‘non-negotiable.’” (February 15, 2000, Bangkok).

The current system also means that there is no system of checks and balances for equity within the institution. If there is no consensus on an issue that may be of critical importance to three-quarters of the membership, but not for the others, nothing moves. This is the case even if the issue could be one of life and death for people in Member countries (for example AIDS, drug pricing and TRIPS). It is therefore almost impossible to make changes to existing agreements given that there will always be those whose commercial interests are represented who will block consensus.

Negotiations Based on Reciprocity : Negotiations are traditionally based on reciprocity and not on any principle of equity. This again gels with the strictly commercial logic of the WTO: “Until I get some benefits from you, I will give nothing away.” The powerful members never voluntarily relinquish benefits out of sympathy for the difficulties others may be facing without extracting a price.

Institutionalizing the Law of the Jungle : To portray the WTO as being above the law of the jungle — characterised by Mike Moore as something like “the WTO or barbarism” — is plainly wrong. In fact, apart from the dispute settlement system (which is also highly problematic for the South), negotiations at the WTO



institutionalize the law of the jungle. Arm-twisting is commonplace and weak countries are constantly threatened that their food aid would be cut off, or their loan suspended, if they do not tow-the-line.

Mobilise to stop a round!

The odds are stacked high against developing countries. While Southern governments can try their best, their continued resistance and fight for their rights in this highly unbalanced power-based system demands strong backing from mass civil society mobilisation in the South and the North.

Some NGOs in the North are already weakening, perhaps because of pressures from their governments or because of pragmatism. There are groups which have bought the rhetoric of their governments: that no new round would bring the WTO to its knees and that the WTO is the only thing that stands between order and the jungle, that the South has to make some concessions if it wants to move forward on implementation, and, most insidiously, that trade is “good for the poor.”

The power imbalances in the WTO are so entrenched that we must challenge the fundamental institutional problems that lie at the heart of the current stalemate. Timidly chipping away at small reforms does little more than legitimise the “rules” with which the powerful and rich countries accelerate and institutionalize their exploitation of the weak in the world trading system.

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¹ Raghavan, ‘LMG caution against ‘misperceptions’ about new round 2’, SUNS #4931 9 July 2001.

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