

Counting the costs of the Cancun failure

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It was a pity that the Cancun trade talks, under the auspices of the World Trade Organisation (WTO), had to end so abruptly and disruptively on 14 September. Some have described the Cancun failure as a “victory” for the poor nations, while some others have vilified it as a bad omen for the multilateral trading system. Now that the dust has settled, such views would sound extremely naïve, if not silly. No doubt, a golden opportunity has been wasted, but then all is not lost either.

It was indeed unfortunate that the trade talks were derailed by acrimony between rich and poor countries. The two main thorny items on the agenda were farm subsidies and the so-called Singapore issues relating to investment, government procurement, competition policy and trade facilitation.

The framework drawn by United States (US) and European Union (EU) to free agriculture trade fell short of the expectations of poor countries, as the scheme did not cover export subsidies. Led by Brazil, China, India and South Africa, the G21 countries were able to stick together insisting that rich countries make bigger efforts to cut subsidies, which total some US\$300 billion a year, and free farm trade. The cotton subsidy issue, which was the main concern of four West African nations (Benin, Burkino Faso, Chad and Mali) was seen as an acid test of whether the Doha Round was truly a Development Round as bandied about. The US subsidy of over US\$3 billion a year spent on its 25,000 cotton farmers, making the US the largest cotton exporter, was highlighted as a case in point. The draft text was terribly disappointing, as it had nothing much to offer on the cotton subsidy, outrageously suggesting that West African countries quit cotton production altogether.

There was so much bitterness over the farm subsidy issue that developing countries could vent their anger on the four new issues. Over 90 countries declared their objections to the extension of negotiations into the new issues. The US and the EU were accused of bullying poor nations into accepting trade rules they were not ready for. Japan and South Korea, too, were bent on pushing all four new issues, which were viewed by many others as a complicated and costly distraction. The insistence on all four issues by EU was matched by the refusal by a group of African countries to negotiate on any of the four issues. It was indeed unfortunate that the trade facilitation issue, the least controversial

and the most eligible of all, could not be addressed constructively. All countries would have gained much from trade facilitation.

Some observers have blamed the failure of the Cancun trade talks on the way in which the players had conducted themselves. For starters, a large part of the Doha agenda was disowned, with the EU denying it had ever made any promise to eliminate export subsidies and many developing countries denying that they ever signed up for the new issues. The Europeans are blamed for being so stubborn and retreating so late on the Singapore issues, due perhaps to the EU's cumbersome decision-making process. The Americans are criticised for not matching their words with action. The non-government organisations (NGOs) are accused of inflammatory behaviour. Some would even blame the chairman of the Cancun gathering for giving up too easily, while others would see the walkout staged by a group of developing countries as the last straw. In the final analysis, it appears that the blame rests on both developed and developing countries for their intransigence and brinkmanship, with neither side recognizing the priority of the other.

All said and done, regardless of who should bear the blame, clearly there are no winners, only losers. The Cancun failure comes at critical moment when the world economy is just hesitantly recovering and world trade is slowly regaining the momentum it had lost in 2001. The hope that a milestone in Cancun would lock-in the recovery process and place the world economy back on the growth trajectory has been dashed. It is estimated that the Doha Round liberalisation would raise world income by more than US\$500 billion by 2015 and that over 60 per cent of that gain would accrue to poor countries.

There are also concerns over the implications of the Cancun failure for the multilateral trading system itself. The danger is that major players would choose to take the bilateral route, which would allow them to impose their will on weaker nations. Not all the poor countries will be appealing to the trade heavyweights for bilateral deals in the first place. The poor and the weak thus run the risk of being either ignored or exploited outside the multilateral framework. It is the multilateral trading system that can protect the interests of poor countries. Freer access to the lucrative markets in developed countries is extremely important for all developing countries, with adequate safeguards and legal redress through dispute settlement. Worse still, any unilateral approach in trade dealings by the strong and the powerful would allow weaker trading nations to be held at ransom.

While all such concerns represent the fallout of the Cancun debacle, there are no reasons to throw in the towel. After all, the Cancun was never the end of the road for the Doha Round. Cancun was no more than a fifth ministerial meeting, in a series of meetings leading to the conclusion of the Doha Round. No one seriously expects breakthroughs during such interim meetings. All that the negotiators needed to accomplish at Cancun was stock-taking and producing a progress report with clear indications of how to proceed from thereon. The Cancun meeting could have ended differently with negotiators (a) agreeing on least-controversial areas such as relaxation of patent protections for the manufacture of medicines to fight epidemics, (b) identifying areas where more work needed to be done as in the case of farm subsidies and (c) putting off talks on such intractable issues as investment rules and competition policy. That would have been a move forward.

Perhaps, the Cancun fiasco was a blessing in disguise, after all. Developing countries were able to demonstrate effectively and emphatically that they cannot be taken for granted, even though they had much to lose from the breakdown of trade talks. After Cancun, developing countries cannot be seen as a fringe group any more. They have emerged as a power bloc to be reckoned with. A change in the nature and quality of negotiations between developed and developing nations was discernible.

Although an opportunity has been lost in Cancun, there will be other opportunities to make up for what was missed out. Another ministerial meeting is in the cooking in Geneva to be held no later than mid-December and there will be several more such meetings before the Doha Round can be successfully concluded. However, it is unlikely that the original deadline of end-December 2004 for the conclusion of the round will be met. One must not lose sight of the fact that the Uruguay Round took eight years to hammer out an agreement in Marrakesh.

The chances are that trade negotiations will continue into and even beyond 2005. It is pertinent to note the US presidential elections are due in 2004 and, if past experience is anything to go by, trade negotiations and election campaigns do not mix well. It is difficult to foresee realistic negotiations with the Americans on farm subsidies under such circumstances. It was only last year that the US passed a farm bill, raising farm subsidies by US\$40 billion. It is most unlikely that President George W. Bush would want to irk his farmers. For it was the farm states that voted heavily for President Bush and delivered the bulk of his electoral votes in the 2000 election. What's more, political contributions in

the US from agribusiness had jumped from US\$37 million in 1992 to US\$ 53 million in 2000.

Without a doubt, agriculture is a divisive issue that not only pitches rich against poor countries but also splits developed countries themselves. The Cairns Group has a north-south axis where some developed countries, including Australia and New Zealand, have joined forces with developing counterparts on agriculture. Developing countries seem determined to dismantle farm subsidies in Europe and North America. One weapon they may use is the expiry of the Uruguay Round “peace clause”, which prevents the filing of formal WTO complaints over the dumping of farm products, at the end of this year. Some believe that a flood of disputes after the expiration of the peace clause will force the Americans and Europeans to negotiate seriously on agriculture in the Doha Round.

Meanwhile it is disquieting to observe that the support for multilateral trade talks among developed countries is waning, with trade falling way behind war on terror. The US seems to have lost moral leadership it had on liberalising trade, not to mention the perception in the US Congress that the US has done more than its share for the global economy. The EU, on its part, seems preoccupied with its concern over coming to terms with the pressures of accommodating the interests of 10 new members. Even the multinational corporations (MNCs), which have long been the ardent supporters of free trade, now appear to be more interested in short-term balance-sheet issues. Multilateral trade talks seem bedeviled not only by north-south divide but also by north-north polarisation. The US-EU confrontation over trade barriers on a number of items ranging from steel to genetically modified food is likely to intensify in the near term, with the US and EU threatening one another with sanctions running into billions of dollars.

All this only underscores the significance and relevance of the multilateral trading system, which is based on rules rather than power play, to the world economy. Admittedly, the WTO is too important an institution to be waylaid, despite its many shortcomings. The WTO can contribute much to the economic welfare of mankind, especially if it remains focused on its commitments to freeing trade in goods and services without straying to into other so-called highly contentious “trade-related” areas.

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