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# Round no one wanted now proving difficult to end

by Chakravarthi Raghavan

Early in 2004, at a meeting at Chatham House, the then Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), Rubens Ricupero, compared the World Trade Organization (WTO)'s Doha Round of negotiations to the fate of the first Austrian republic founded after the First World War, and said the Doha Round should be called "the round that no one wanted".

Five years down the line, with the Doha negotiations at an impasse, a financial and economic crisis sweeping across the world and needing Keynesian solutions of an active government role and intervention (all contrary to the WTO philosophy and agreements that discipline governments), and trade issues having a very low priority for the Obama administration in Washington, the Round has become one that no one knows how to end.

Explaining his remarks of February 2004 in a recent communication to this writer, Ricupero recalled that after the First World War, all the non-German-speaking parts of the Austrian Empire had been assigned to the new ethnic countries being created at the time. The German-speaking part of that Empire had been told that it could not join Germany, and reluctantly became an independent country and a republic (which ended in March 1938 with Hitler's Anschluss).

Austrian historians have called that first republic "the country that no one wanted".

## Permanent negotiating forum

When the Marrakesh treaty was signed in 1994, creating the WTO and providing for a Ministerial Conference once in two years as the supreme governing body of the WTO, the treaty (Article

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**Address**: 131, Jalan Macalister, 10400 Penang, MALAYSIA **Tel**: 60-4-2266728/2266159 **Fax**: 60-4-2264505
**E-mail**: twnet@po.jaring.my **Website**: www.twnside.org.sg

3:2) made the WTO "the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with under the agreements in the annexes to this treaty."

At Marrakesh, there was a general consensus that with the WTO as an international organization and a permanent forum for negotiations, there was no more need for special ministerial conferences to launch new rounds of negotiations. So much so that, at the 1996 WTO Ministerial Conference in Singapore, the US Trade Representative (USTR), Charlene Barshefsky, had said there was no need for a trade round since the WTO provided members with a permanent forum for negotiations on a daily basis. What was needed, she said, was to fully implement the Uruguay Round agreements, conclude the Information Technology Agreement (which they did in Singapore) and go back to Geneva to conclude the Basic Telecommunications Services Agreement and the Agreement on Financial Services (both part of the Uruguay Round and decided at Marrakesh to be unfinished business and for negotiations to continue).

The agreements under the Marrakesh treaty provided for gradual implementation of some of the reforms. This included, principally, at the end of the initial six-year implementation period of the Agreement on Agriculture (AoA), further negotiations to carry forward the agriculture reform process by the developed countries (for eliminating domestic subsidies, reducing border protection measures and phasing out export subsidies).

Even at Singapore, Argentina served notice on the mandate for further agriculture negotiations at the end of the initial implementation period (that is, beginning 2001) and wanted the launch of a work programme towards that end, including gathering the necessary data on the initial implementation and its effects. However, the European Union (EU) and its Trade Commissioner, Sir Leon Brittan, knowing that the EU would be isolated and would face considerable pressure to drastically reform its Common Agricultural Policy (CAP) and reduce its protections, put on the agenda of the WTO four items (which later came to be known as the "Singapore issues") on a study programme.

## Push for a new round

At the next WTO Ministerial Conference, which was held in Geneva in 1998, the EU called for a "Millennium Round", and set in motion at the WTO a preparatory process that would lead to decisions in 1999 for negotiations for "sufficiently broad-based" trade liberalization to "respond to the range of interests and concerns" of all members within the WTO framework.

The EU (along with Japan and other agriculture protectionists) privately told some of the agriculture exporters, in particular the Latin American countries (which had already liberalized their financial and other sectors in line with the Washington Consensus and opened up their capital accounts), that the EU needed to get investment (one of the four Singapore issues) etc on the agenda to be able to get domestic support for undertaking further agriculture reforms. And the EU Commission told the EU industry and business sector that they needed a round with these new issues in order to get for EU investors a level playing field with the Americans, who could negotiate bilateral investment treaties.

And in the preparatory process, the EU encouraged all members to put anything they wanted on the agenda, so that they could disarm opposition to the EU's own items. The EU also persuaded the Cairns Group exporters from Latin America that, in return for concessions on investment and industrial goods by the Asian countries, the EU would be able to undertake further reforms of its CAP (and thus open up its market to Latin American agricultural exports).

Through such Machiavellian manoeuvrings and playing one group of countries against another, the EU sought to put on the agenda for the next Ministerial Conference, to be held in Seattle in 1999 (by then Pascal Lamy had become the EU Trade Commissioner, replacing Brittan), all the mandated and built-in areas of negotiations (agriculture, services and implementation issues raised by developing countries) but also the four Singapore issues. The EU's idea was to get a new round with so many complicated new issues as a single undertaking – and thus put off for as long as possible further agriculture reforms.

But the Seattle meeting collapsed, not because of the civil society protests outside but because a large number of WTO member countries rebelled against a manipulative process of decision-making among a small group of countries (characteristic of the WTO even now) and called a halt to the meeting.

The shell-shocked WTO leadership returned to Geneva, where the WTO General Council agreed on confidence-building measures and focus on the built-in agenda. But this did not suit the EU or Lamy, who, within a few days of the 11 September 2001 terrorist attacks on New York, issued a call for a new WTO meeting to launch a new round as an answer to the terrorists, and got USTR Robert Zoellick to join this. Zoellick, who had been rebuffed in his efforts to obtain trade negotiating authority from the US Congress, joined Lamy in the call for a new round (he wanted a "market access round"), even though the US was concerned over a possible backlash that may force a rollback of the US gains in the WTO trading system (such as over TRIPS).

There were also other cheerleaders – then WTO Director-General Mike Moore, former WTO head Peter Sutherland and free trade theologians – who tried to sell the round as a solution to a possible global recession at that time in the wake of the bursting of the dotcom bubble.

Eventually, through a coercive "green room" decision-making process at the Doha Ministerial Conference in November 2001 (helped from behind the scenes by some facilitators, including Brazil's Celso Lafer, foreign minister under President Cardoso, and South Africa's Alec Irwin), the Doha negotiations on agriculture, non-agricultural market access, services and the four Singapore issues, among others, were launched as a single undertaking.

At Doha, the EU attempted to have the negotiations officially labelled a "Development Round" but failed; developing countries refused to buy it. As Ricupero, speaking for UN Secretary-General Kofi Annan, said at Doha, one would have to wait for the conclusion of the Round and assess its benefits to developing countries (and not go by good intentions or promises at Doha). Even Ricupero's caveats were on the basis that market access for developing countries and making the trading system less imbalanced against the developing world would help development of developing countries.

After the collapse of the Cancun Ministerial Conference of 2003, where the EU was forced to abandon its Singapore issues, in particular investment and competition policy, the EU's official trade negotiators, at an informal meeting in Ouchy (near Geneva), said that the EU was not a demandeur in the Doha Round!

It was this, Ricupero said in his communication to this writer, which had prompted him to declare at the Chatham House meeting that Doha had become the round that no one wanted as there were no demandeurs. (It was only later that Celso Amorim and the agriculture exporters became the demandeurs.)

"And what we are witnessing today at the WTO," Ricupero added, is that "an artificial round, for which there had been no real and genuine need, is difficult to conduct and even more difficult to kill."

### Deadlocked talks

Soon after the launch of the Doha Round, Lamy as EU Trade Commissioner had gone to India and, in a meeting with civil society as well as others, made clear that the EU could not eliminate agriculture subsidies and support to its farmers, since it had to find a way to keep farmers on the farms.

After he became the WTO Director-General, and after the Hong Kong Ministerial Conference in 2005, Lamy has gradually tried to change the focus of the Doha negotiations to market access, seeking to present market access as "development". He thus more or less sidetracked the issue of further agriculture reforms and an end to domestic agricultural subsidies (in the EU, the US and other industrialized countries), focussing on market access in major developing countries – for agricultural processed products, non-agricultural market access (for industrial goods) and for further liberalization of services, including financial services. But, for all his wily calculations and manipulative actions in small meetings, he has failed to produce results – and three successive "mini-ministerial" meetings he convened ended in spectacular failure. (Peter Mandelson, Lamy's successor at the EU Commission and now UK Business Secretary, has also been pushing in the same direction.)

If ever there was a point when the negotiations were lost to Lamy, it was at the meeting convened of a few key countries following the St Petersburg G8 summit. When it became clear to him at that June 2006 meeting that USTR Susan Schwab could not make any concessions on the US' domestic agricultural subsidies or issues like cotton, he abruptly adjourned the meeting, announced it to the media, then came to Geneva, convened an informal WTO Trade Negotiations Committee meeting at heads-of-delegation level, recommended suspension of the Doha talks and got it endorsed. He had planned to resume the talks after the mid-term Congressional elections in the US, but when the Democrats subsequently emerged as the majority in the House and the Congressional "fast track authority" expired on 30 June 2007, the administration of George W Bush (the most unpopular president in recent US history) lost the ability to conclude any agreement and carry it through Congress.

### Selling the Doha Round

Instead of realizing this, through the better part of 2007 and all of 2008, the Doha Round (which was fully resumed in January 2007) and its conclusion was presented as a solution for everything:

- In March 2008 at the IMF-World Bank meeting, Lamy presented the Doha talks as a solution to the emerging financial crisis, with the WTO secretariat arguing that liberalization of financial services will facilitate investment in developing countries.

[As a matter of fact, if the demands on developing countries by the US and EU for liberalizing financial services according to the 1998 Financial Services Understanding (which was only "a modality") – including a provision to enable foreign banks (branches or subsidiaries) to introduce any kind of derivatives, and to restrict the scope for "prudential regulations" – had been agreed to, the major developing countries which escaped the financial meltdown in the US and EU would have been hit – and the global financial crisis would be worse.]

- At the FAO summit in Rome, the WTO and the successful conclusion of its agriculture talks (involving, among others, the developing countries opening up their markets to agricultural products which enjoy large domestic subsidies in the EU and US) was pointed to as a solution to the food crisis.

(The UN Assistant Secretary-General at the Department of Economic and Social Affairs, Jomo Kwame Sundaram, challenged this at a presentation in Vancouver in June 2008.)

- At the Financing for Development (FfD) meeting in Doha last December, Lamy tried selling the Doha Round as the best way to avoid a global recession as it became apparent that the financial crisis was beginning to have an impact on the real economy.

The entire exercise of Lamy and other trade officials, as well as some of the trade ministers, trying to "sell" the Doha Round as a solution to several of the ongoing or unfolding crises, brings to mind Mark Twain's story of the "snake-oil salesman".

Snake oil, called *sheyou* in traditional Chinese medicine, is prepared out of the fat of the poisonous water snake, and used as a remedy for inflammation and pain in rheumatoid arthritis, bursitis and other similar conditions. Fats and oils from the poisonous water snake have a high content of eicosapentaenoic acid (EPA), so snake oil was actually a plausible remedy for joint pain as EPA is thought to have inflammation-reducing properties. Chinese labourers on railroad gangs involved in building the Transcontinental Railroad in North America gave snake oil to Europeans with joint pain. In an effort to produce snake oil in America, the fat from the rattlesnake was used, but this had very low EPA content and was thus not effective. Other fats and oils were produced, and in the wild west these were sold as a remedy for almost any ill. It was this which gave rise to Mark Twain's descriptions of the snake-oil salesman and his shills.

In a similar way, free trade theories and theologies, and their promise of win-win benefits from rapid liberalization, have been invoked to sell the Doha agenda, but they have failed to carry any conviction. Even a passing familiarity with the writings of the classical trade theorists, from Smith to Marshall, would have provided pause for thought about the links between trade liberalization and development (see M Panic, 1988, *National Management of the International Economy*; also Richard Kozul-Wright and Paul Rayment, 2007, *The Resistible Rise of Market Fundamentalism*), and a more careful reading of the recent contributions of Krugman, Stiglitz, Baumol and Samuelson (to name only more mainstream economists) would have helped fashion a more sensible discussion of trade and development more generally.

Failure to do this has meant that some of the most malignant features of the international trading system in recent years have gone undiscussed. In particular, as promoted at the WTO under the banner of "free trade", the neo-mercantilist interests of the US and EU have been sought to be advanced, and this has repeatedly met with rebuffs from the majority of the membership.

With the US and the EU unwilling to reduce their heavy subsidies to the agriculture sector, but wanting market opening in developing countries for their agricultural exports as well as drastic cuts in industrial tariffs in the major developing countries (and, on top of it, "zero tariffs" in sectors where the US has the dominant advantage), the Doha negotiations have reached an impasse.

Meanwhile, with the financial crisis and meltdown, governments in the US and Britain have taken an ownership stake in several banks and financial institutions. In the US, the federal government has taken 80% ownership of the AIG insurance company, virtually nationalized the two giant mortgage-financing companies (Fannie Mae and Freddie Mac) and injected aid to the three US auto companies (General Motors, Chrysler and Ford). The crisis is still evolving, with ad hoc governmental measures to contain and deal with it.

Arguably, it could be claimed that some of these and other measures are prudential measures, but on some others (like the 80% ownership of AIG), the US action may be contrary to its commitments at the WTO; the aid to the auto industry, for example, may fall foul of the WTO's subsidies agreement.

And many of the "reforms" in the financial sector that have recently been recommended by a task force led by former US Federal Reserve chief Paul Volcker would certainly require a revisiting of the Marrakesh agreements, including those in the area of trade in goods and services. Negotiators from developing countries might wish to bear in mind the saying, "when at the bottom of a sand pit, stop digging".

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**Chakravarthi Raghavan** is Editor Emeritus of the *South-North Development Monitor* (*SUNS*). The above first appeared in *SUNS* No. 6622, 21 January 2009.