The real meaning of Hong Kong:

India and Brazil join the big boys' club

WALDEN BELLO

What was at stake at the Hong Kong ministerial meeting was the institutional survival of the World Trade Organisation (WTO). After the collapse of two ministerials in Seattle and Cancun, a third unravelling would have seriously eroded the usefulness of the WTO as the key engine of global trade liberalisation. A deal was needed, and that deal was arrived at. How, why, and by whom that deal was delivered was the real story of the December 2005 meeting in Hong Kong.

A real deal, not a cosmetic one

The Hong Kong deal has been characterised in some reports as a "minimum package" that mainly functions as a life support system for the WTO. This is hardly the case. The deal extracted substantial concessions from developing countries while giving them hardly anything in return.

The stipulation of a Swiss formula to govern Non-Agricultural Market Access (NAMA, see box over page), which would cut higher tariffs proportionally more than lower tariffs, would penalise mainly developing countries. This is because to build up their industrial sectors via import substitution they generally maintain higher industrial and manufacturing tariffs than developed countries.

The specification of a "plurilateral" process of negotiations in the services text erodes the flexible request-offer approach that has marked the General Agreement on Trade in Services (GATS, see box over page) negotiations. It injects a mandatory element, and will corral many developing countries into sectoral negotiations designed to blast open key services.

What the South got in return was mainly a date for the final phase-out of export subsidies in agriculture

NAMA: stifling domestic growth

NAMA is an agreement for binding and reduction of tariffs not just on industrial products, but on products like fish and fishery products, shoes, toys, jewellery and almost anything outside the ambit of the Agreement on Agriculture. The significance of this agreement lies in the scope of products and sectors that fall within its terms. Many of these are of vital importance to the development of developing countries and the livelihoods of their populations. Denied the ability to protect their emerging industrial sectors, there are grave concerns that developing countries will be lead down a path of deindustrialisation. This is because any existing domestic industries will be unable to compete with industrial products likely to flood their markets as a result of liberalisation. NAMA would further reduce the development options for developing countries as it would undermine their already limited capacity to develop their industrial base.

that nevertheless left the structure of agricultural subsidisation in the EU and the US largely intact (see box on p4). Even with the phase out of formally defined export subsidies, other forms of export support will allow the European Union, for instance, to continue to subsidise exports to the tune of 55 billion euros after 2013.

"The main gain for Brazil and India lay not in the impact of the agreement on their economies but in the affirmation of their new role as power brokers"

In sum, this was an agreement with teeth, but the bite will be felt principally by the developing countries. The contours of the deal were already evident before Hong Kong, and many developing countries went to the ministerial determined to oppose it. There were occasions that seemed to promise that developing country unity might yet emerge to derail the impending deal. Yet, in the end, the developing country governments caved in, many of them motivated solely by the fear of getting saddled with the blame for the collapse of the organisation.

GATS: good bye to the public sector

The General Agreement on Trade in Services (GATS), with its central principle of "national treatment" providing foreign investors equal rights as national actors, is proving to be an extraordinarily powerful tool for the entry of transnational corporations into and control of the service sector. This situation is particularly acute for developing and least developed countries, where services accounts for more than 50% of their gross domestic product. Especially threatened are water, electricity, telecommunications, health, educational and other essential services that necessitate public generation and delivery systems in order to assure all citizens equitable access to them. GATS will lead to the shrinking of the public sector, threatening national sovereignty and provoking serious social unrest.

The dealmakers

The reason for the developing countries' collapse was not so much lack of leadership, but leadership that brought them in the opposite direction. The key to the debacle of Hong Kong was the role of Brazil and India, the leaders of the famed Group of 20 (see box).

Even before Hong Kong, Brazil and India were prepared to make a deal. For Brazil, the bottom line was the specification by the EU of a date for the phase-out of agricultural export subsidies, and this was an item that Brazilian negotiators and many others expected would be delivered by the EU at the ministerial. Brazil also came to Hong Kong willing to accept a Swiss formula in NAMA and the plurilateral approach in services. India came open to accepting the plurilateral approach in services negotiations and the Swiss formula in NAMA, and to follow Brazil's lead in agriculture. The only question for many was: would India press for getting the US and EU to agree to the entry of more professionals from developing countries as part of GATS? As it turned out, India decided not to press them.

The prize

It is a matter of debate whether the final agreement will result in a net gain for Brazil and India, though if the balance ends up with a net loss, this would likely be smaller than for the less advanced developing countries. But the main gain for Brazil and India lay not in the impact of the agreement on their economies but in the affirmation of their new role as power brokers within the WTO.

With the emergence of the G20 during the ministerial in Cancun in 2003, the EU and the US were put on notice that the old structure of power and decision-making at the WTO was obsolete. The circle of power had to be expanded to get the organisation back on its feet and moving. The EU and US' invitation to Brazil and India to be part, along with Australia, of the "Five Interested Parties (FIPs)," was a key step in this direction, and it was agreement among the FIPs that solved the impasse in the agriculture negotiations in July 2004.

In the lead-up of the Hong Kong ministerial, Brazil and India's new role as power brokers between the developed and developing world was affirmed with the creation of a new informal grouping known as the "New Quad". This formation, which included the EU, US, Brazil, and India, played the decisive role in setting the agenda and the direction of the negotiations. Its main objective in Hong Kong was to save the WTO. And the role of Brazil and India was to extract the assent of the developing countries to an unbalanced agreement that would make this possible in the face of the reluctance of the EU and US to make substantive concessions in agriculture. Delivering this consent was to be the proof that Brazil and India were "responsible" global actors. It was the price they had to pay for full membership in a new, enlarged power structure.

It took a lot of lobbying before and during Hong Kong, with both governments putting their reputation as leaders of the developing world on the line, but they succeeded in getting everybody, though not without some grumbling, to assent to a bad deal. It was no mean feat for it involved:

- Getting the least developed countries to agree to a "development package" that consisted mainly of a loophole-ridden provision for the "duty free" and "quota free" entry of their products into developed country markets and a deceptively named "aid for trade" deal that would consist partly of loans to enable them to make their economic regulations WTO-consistent, increasing their indebtedness in the process;

- Cajoling the West African cotton producers to accept a deal whose main content was giving the US a whole extra year to eliminate export subsidies that it should have eliminated a year and a half ago, and which totally ignored their demand for compensation for the enormous damage these subsidies had inflicted on West African economies;

- Coaxing the holdouts in the services negotiations – Indonesia, Philippines, South Africa, Venezuela, and Cuba – to give up their opposition to plurilateral negotiations; and

- Neutralising the more dissatisfied members of the so-called "NAMA 11," (of which Brazil and India were themselves members) which wanted to tie the North's demands for a fast pace of liberalisation in industrial and fishery tariffs to the North's concessions in agriculture.

Mutual admiration club

The final G20 press conference in the late afternoon of December 18 was notable for its lack of substance and for its symbolism. As if to preempt hard questions on whether the ministerial text represented a good deal for developing countries, Brazilian Foreign Minister Celso Amorim repeatedly claimed "We have a date," referring to the 2013 phase-out date for export subsidies.

The G20:

The G20 currently comprises 19 developing country members of the WTO. Led by Brazil and India, it has been one of the most important groupings in WTO negotiations since the Cancun ministerial in 2003. The group recently proposed a middle ground formula for tariff reduction that was widely accepted as a basis for further negotiation. On export competition, it proposed a 5-year deadline for eliminating all subsidies. The G20 comprises Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe.

Then Amorim and Indian Commerce and Industy Minister Kamal Nath engaged in a round of backslapping, congratulating one another for doing a great job in coming out with an agreement that protected the interests of developing countries. Then, with so many of those in attendance poised to ask questions, Amorim hurriedly cut short the press conference and quickly left the room with Kamal Nath.

At the closing session of Sixth Ministerial, Pascal Lamy, Director General of the WTO, said that in Hong Kong, "the balance of power has tilted in favour of developing countries." The statement was not entirely cynical and untrue. The grain of truth in his statement was that India and Brazil, the big boys of the developing world, had become part of the big boys' club that governs the WTO.

Paradox

It is paradoxical that the G20, whose formation captured the imagination of the developing world during the Cancun ministerial, has ended up being

Dottie Guerrero

Almost 1000 demonstrators were arrested in clashes with police in Hong Kong.

Much ado about nothing: agriculture in Hong Kong

Ten years since the WTO came into existence, and after six ministerial conferences, developing countries have failed miserably to force the industrialised countries to remove even one dollar from the massive agricultural support they provide to agribusiness corporations in the name of farmers. Unable to make any dent in the citadel of unfair trade – farm subsidies of US $1 billion a day – developing countries have time and again taken refuge behind an illusionary smoke screen. After each of the ministerial conferences, they have returned 'victorious', and the price has been paid by millions of small farmers edged out of farming.

In Hong Kong, there was much excitement is over finally forging an agreement to eliminate of export subsidies by 2013. But the excitement is misplaced. Export subsidies do not even constitute one per cent of the total support of US$ 360 billion that the richest trading block[1] provides for agriculture, and they have already been dropping steadily for some time. This is because the EU and US, seeing the writing on the wall, have been steadily shifting export subsidies to domestic support. As economist Jacques Berthelot explains: "Formal export subsidies to EU cereals were reduced from Euro 2.2 billion in 1992 to 121 million in 2002. But domestic support in the form of direct payments that helped exported cereals rose from Euro 117 million in 1992 to Euro 1.3 billion in 2002."

In the case of cotton, the removal of US export subsidies does not translate to more than $30 million, which is not even a drop in the ocean of cotton support: the US provides barely 1.4% of global export subsidies. For the 20,000 cotton growers in the US, it will be business as usual. In 2005, US cotton farmers received federal support to the tune of $4.7 billion, or $12.9 million a day. It is this huge domestic support, much of it considered non-trade distorting, that prices West African and Indian farmers out of the market, not export subsidies. The Hong Kong declaration does not talk about reduction in domestic support for agriculture. And that is where the US, EU and Japan have succeeded. They have emerged scathe-free from a negotiating position that could have derailed the Hong Kong ministerial.

In return, developing countries have agreed to a "high level of ambition for market access in agriculture and non-agriculture goods." This is what exactly the developed countries had been keenly looking forward to, and this is where the developing countries gave in. Step by step, developed countries have been able to get more market access from the developing countries, without showing equal reciprocation.

Unless agricultural subsidies are removed there is no way developing countries can escape the harmful impacts of cheaper and subsidised food surges. Highly subsidised imports from the developed countries have already done irreparable damage to the agricultural production potential of the developing countries. Between 1995 and 2004, Europe alone has increased its agricultural exports by 26%, much of it because of the massive domestic subsidies it provides. Each percentage increase in exports brings in a financial gain of US$ 3 billion.

On the other hand, a vast majority of the developing countries have turned into food importers during the first 10 years of the WTO. Millions of farmers have lost their livelihoods as a result of cheaper imports. If the WTO has its ways, and the developing countries fail to understand the prevailing politics that drives the agriculture trade agenda, the world will soon have two kinds of agriculture systems. The rich countries will produce staple foods for the world's 6 billion plus people, and developing countries will grow cash crops like tomato, cut flowers, peas, sunflower, strawberries and vegetables.

WTO would ensure that the reins of food security are passed into the hands of rich and developed countries – back to the days of 'ship-to-mouth' existence. Developing countries have no one to blame, but themselves.

Extracted from: Devinder Sharma, "The WTO Hong Kong Ministerial: Much ado about nothing." Devinder Sharma is a New Delhi-based food and trade policy analyst. He can be emailed to: dsharma@ndf.vsnl.net.in

[1] The 30 countries that make up the Organisation for Economic Cooperation and Development (OECD)

the launching pad for India and Brazil's integration into the WTO power structure. But this is hardly unusual in history. Vilfredo Pareto, the Italian thinker, referred to history being the "graveyard of aristocracies" that took a hard line against change in power relations. To Pareto, the most successful elites are those that manage to co-opt the leaders of the mass insurgency that set out to remove them for power and enlarge the power elite while preserving the structure of the system. Though divided on agriculture, the US and the EU had as a common priority since the collapse of the Cancun ministerial the survival of the WTO, and they successfully managed a strategy of co-optation that snatched victory from the jaws of defeat .

Before the events in Hong Kong, the most striking recent cases of cooptation involved the Worker's Party-led government of President Luis Inacio da Silva in Brazil and the Congress-led coalition government in India. Both came to power with anti-neoliberal platforms. But in power, both have become the most effective stabilisers of neoliberal programs, with both enjoying the support of the International Monetary Fund, the transnational corporate lobby, and Washington. It is not unreasonable to assume that there is a connection between the domestic record of these governments and their performance on the global stage in Hong Kong.

Walden Bello (right) is Executive Director of the Bangkok-based research, analysis, and advocacy institute Focus on the Global South. Focus was founded in 1995 and has three offices in Bangkok, Thailand, Mumbai, India and Manila, Philippines. It aims to articulate, link and develop greater coherence between local community-based and national, regional and global paradigms of change, striving to create a distinct and cogent link between development at the grassroots and the "macro" levels.