Public Citizen 35 YEARS
Protecting Health, Safety & Democracy
Auto Safety Group • Congress Watch • Critical Mass • Global Trade Watch • Health Research Group • Litigation Group
Joan Claybrook, President

TO: Interested Parties
FR: Todd Tucker, Research Director, Public Citizen's Global Trade Watch
DT: February 13, 2007
RE: Sunset of Fast Track could Avoid Increase in World Poverty: reports from World Bank, Tufts University, and the Carnegie Endowment for International Peace Point to Net Losses for Poor Countries from Conclusion of Doha Round WTO Escalation

Although the talks towards concluding the Doha Round of the World Trade Organization (WTO) have restarted (following their suspension on July 24, 2006), it has become increasingly clear that five years of negotiations based on the Doha agenda are going nowhere. The majority of press coverage thus far has focused on the horse race aspect (who is offering what to whom) and now on which countries' "intransigence" on specific concessions can be blamed for the deadlock. An under-recognized, but extremely significant, story is that the underlying cause of the inability of countries to make further concessions in the negotiations is the growing rejection of the WTO, and more broadly of the corporate-led globalization model for which the WTO is a delivery mechanism, by many people worldwide based on this model's effects on their lives. This popular opposition is now a significant counterforce pressuring many WTO member nations to reject the agenda supported by global business associations and the world's largest multinational corporations, which traditionally have been able to use the WTO Secretariat and negotiators of many of the world's most powerful countries (in which these businesses are based) to impose their will.

Thus, the proximate cause of the deadlock is related to the G-6 not agreeing on modalities for agriculture and non-agriculture market access talks. However, the real cause can be understood only in the broader context of how it came to be that nearly four years after the initial deadline for deciding these modalities had passed, scores of specific meta-decisions about these agricultural and industrial trade modalities have reached an impasse not over narrow technicalities, but over major differences concerning the WTO's proper objectives and direction.

A decade into the WTO experiment, the promised benefits have not accrued and economic, environmental and social conditions have worsened for many in ways that are linked to the WTO's requirements. Because the WTO rules extend far beyond trade per se to require WTO signatory nations to implement a broad package of policies (patent rules, service sector privatization and deregulation, elimination of various industrial policies and changes in domestic environmental and health policy), the ways in which the WTO has affected people in nations of different levels of development vary greatly. The package of policies that the WTO requires, often dubbed the "Neo-liberal Agenda" or "Washington Consensus," has been declared dead by analysts worldwide after various high-profile economic failures and ensuing political backlash. Dead though the Washington Consensus' legitimacy may be, the Washington Consensus is nonetheless what the dozen WTO agreements implement.

Nowhere in the world are there broad swaths of happy beneficiaries serving as a base of support for WTO expansion. In the past, such public opinion was overcome by the narrow commercial interests benefiting from the status quo with major public relations campaigns focusing on projected gains that would accrue from further "liberalization." However, recent World Bank studies revealing paltry Doha Round gains for a few nations and net losses for many developing countries have sidelined this strategy. As a result, accountability for the damage wrought by the WTO to date has created major debates about the merits of various WTO policies and has changed the political calculation for many governments.

As this memorandum discusses, the deadlock in WTO Doha Round talks poses a serious challenge to the legitimacy of the WTO model. The real story is what the Doha Round impasse means for the future of the WTO's model of corporate globalization.

A Decade of WTO Results Has Undermined Support for WTO Expansion

Increased rates of economic growth, decreased poverty and no threat to sovereignty regarding domestic policy-making were the promises made when the GATT Uruguay Round was debated worldwide in 1994. While the WTO debate in the U.S. Congress was heated compared to previous GATT Rounds, fierce debates raged in developing countries about establishment of the WTO, with one nation's parliament only partially approving the round (India), and other nations resorting to procedural stunts to obtain "approval" (as in the Philippines). For developing countries that had been forced to adopt aspects of the same policy package as conditions for their International Monetary Fund or World Bank loans, people already had decades of experience with the model's many downsides and had not seen the promised gains.

Many in the Global South quipped that the WTO was a "structural adjustment" program for the rest of the world. A decade of WTO results now provides a global test run of the neo-liberal policy package and global evidence of its failings. The global citizens' movements – internationally connected country-based campaigns of those harmed by the WTO – use the record of widespread problems caused by the WTO policy package in many countries and the uniform absence of the promised benefits as their key organizing tool.

During the WTO decade, economic conditions for the majority have deteriorated. The number and percentage of people living on less than $1 a day (the World Bank definition of extreme poverty) in regions with some of the worst forms of poverty – Sub-Saharan Africa and the Middle East – have increased since the WTO began operating,[1] while the number and percentage of people living on less than $2 a day has increased at the same time in these regions, as well as in Latin America and the Caribbean.[2] Growth rates in these regions have also slowed dramatically since the implementation of the neo-liberal policy package. In Latin America, from 1960 to 1980, per capita income grew by 82 percent, while from 1980 to 2000, income per person grew only 9 percent. From 2000 to 2005, income per head grew 4 percent.[3] Similarly, in Africa, per capita income grew around 40 percent from 1960 to 1980 and shrank more than 10 percent from 1980 to 1998.[4]

The number of people living in poverty has also increased in South Asia, while growth rates and the rate of reduction in poverty have slowed in most parts of the world – especially when one excludes China, where huge reductions in poverty have been accomplished, but not by following WTO-approved policies (China became a WTO member only in 2001).[5] Indeed, the economic policies that China employed to obtain its dramatic growth and poverty reduction are a veritable smorgasbord of WTO violations: high tariffs to keep out imports and significant subsidies and government intervention to promote exports; an absence of intellectual property protection; government-owned, operated and subsidized energy, transportation and manufacturing sectors; tightly regulated foreign investment with numerous performance requirements regarding domestic content and technology transfer; government-controlled finance and banking systems subsidizing billions in non-performing debt; and government-controlled, subsidized and protected agriculture. Many of these same policies are those employed by the now-wealthy countries during their period of development.

It's not as if the status quo is working for most people in the rich countries either. During the WTO era, the U.S. trade deficit has risen to historic levels – from around $100 billion (in today's dollars) in 1994 (the year before the WTO went into effect) to nearly $800 billion in 2006. The U.S. trade deficit is approaching 6 percent of national income – a figure widely agreed to be unsustainable, putting the United States and global economy at risk.[6] Soaring U.S. imports during the WTO decade have contributed to the loss of nearly one in six U.S. manufacturing jobs. U.S. real median wages have scarcely risen above their 1970 level, while productivity has soared 82 percent over the same period, resulting in declining or stagnant standards of living for the nearly 70 percent of the U.S. population that does not have a college degree.[7] And for the first time in generations, the United States is headed for net food-importer status, having seen monthly agricultural imports outpace exports in August 2006.[8] The United States lost 226,695 small and family farms between 1995 and 2003,[9] while average net cash farm income for the very poorest farmers dropped to an astounding -$5,228.90 in 2003, a colossal 200 percent drop since the WTO went into effect.[10]

Although trade and the status-quo model's failure were important issues in many 2006 U.S. congressional races,[11] the bottom-up public pressure that has altered trade politics in many nations has not risen to a level in the United States that translates into significantly altered negotiating positions. Thus, while a majority of the U.S. public is losing under the Bush administration's trade agenda, the U.S. WTO position continues to be that of the narrow commercial interests that have bankrolled the administration's campaigns and those of the GOP majority in Congress.

Meager Projected Doha Round Gains for a Few and Net Losses for Many

Given the record of the WTO decade, proponents of the Doha Round agenda – which was designed to expand the WTO's scope and authority – sought to change the debate away from the WTO's performance and onto prospective future gains that could accrue. Initial projections by the World Bank were $832 billion using a methodology widely criticized as unrealistic.[12]

More recent World Bank studies based on revised analysis found extremely limited possible gains from a "Doha Round" overall. The most likely Doha scenario the World Bank reviewed would yield benefits of only $16 billion for developing countries and $96 billion to the world by 2015, meaning the developing country share of Doha gains would be only about 16 percent. These projections of gains amount to 0.14 percent of projected developing country GDP by that year, or about 0.23 percent of world GDP. Put another way, it is a little less than one cent per person per day to the developing world, or about four cents per person per day to the world as a whole.[13]

Worse, the new research revealed that 50 percent of the limited gains for developing countries under a scenario of total liberalization (which Doha would not have achieved) would go to only eight countries: Argentina, Brazil, China, India, Mexico, Thailand, Turkey and Vietnam. And under the "likely" Doha scenario, the Middle East, Bangladesh, much of Africa and (notably) Mexico would actually face net losses.[14]

Further recent studies showed that the alleged gains that are projected to accrue to Brazil and India with the Doha Round would be largely concentrated to the mercantilist interests of those countries' agribusiness and manufacturing industries respectively, while subsistence farmers – a much larger percentage of those populations – would see tiny gains or net losses.[15] Likewise, even gains to these two alleged "winners" in agricultural and manufacturing liberalization would be offset by increased costs from royalty payments on patent monopolies, liberalization of sensitive service sectors and loss in tariff revenues.[16]

The World Bank findings are key to understanding the current political dynamic because many countries only reluctantly entered into WTO expansion talks at Doha in 2001 after being promised a "development" round aimed at rectifying imbalances in the Uruguay Round. Indeed, at the Doha WTO Ministerial, a group of 100 developing nations had tabled an alternative Doha Round Agenda, called the Implementation Agenda, which consisted of specific fixes needed to existing WTO terms. The Implementation Agenda was the developing countries' counter-initiative after they had rejected the "Millennium Round" WTO expansion agenda at the 1999 Seattle WTO summit.

As it became increasingly clear that the "Doha Round" was mainly a re-labeled revival of the rejected Millennium Round agenda, developing countries stood in unity to demand changes to the agenda. When the United States, the European Union and several other mainly developed countries refused to accommodate these demands, the Cancún Ministerial collapsed in 2003.

The United States and Europe then took desperate measures to revive the corporate WTO expansion agenda, launching a multi-pronged divide-and-conquer strategy aimed at breaking developing country unity. The strategy was to invite India and Brazil to form a new group as "representatives" of the developing-country membership of the WTO. The strategy was clever, because India and Brazil have mercantilist interests in common with the large developing countries (India on service sector liberalization and Brazil regarding agribusiness export opportunities) that split them from smaller developing countries. The new grouping was used to issue a "July Package" in 2004 that was delivered with a "take it or leave it" attitude to the rest of the 140-plus WTO countries. Interestingly, the July agenda did jettison some aspects of the Millennium Round – new investment, procurement and competition policy negotiations – that had been most despised by developing country WTO members. The July package then became the new timetable and agenda, which was to have resulted in various meta-agreements that would have allowed the 2005 Hong Kong WTO Ministerial to have set a final timeline that would have concluded the round, even a year after the deadline. Yet deep divides remained regarding the July Package issues – agriculture, non-agriculture market access and service sector liberalization.

As it became clear that the Hong Kong Ministerial might well implode, the United States and Europe rolled out a new "Development Package" offer that was aimed at "buying off" the resistance of the Least-Developed Countries (LDCs) so that an even smaller group of developing countries would be left alone as the resistance. An investigation of the potential increased market access for LDCs from the "Development Package" demonstrated that the deal's 97 percent "Duty-Free, Quota-Free" market access provisions could actually leave many countries worse off, and that promises of increased aid were actually severely limited.[17]

After Hong Kong, a variety of invitation-only "mini-Ministerials" were called in order to try to force agreement among specific pre-selected countries that would then be presented to the majority of members as a done deal. In accordance with the WTO's procedures and mandate, any Ministerial called by the WTO secretariat must allow for the effective participation of all ministers. Thus, Director General Pascal Lamy's call for a July 2006 "mini-Ministerial" meeting in Geneva was a blatant subversion of democracy in the negotiations. However, even the procedural stunt of holding a small closed session could not cook up a deal that could overcome the domestic political dynamics confronting several of the governments involved. When the "indefinite suspension" of negotiations was announced, countries had not shifted positions on the major issues for months. Nearly all countries are experiencing significant domestic pressure to refuse to agree to a deal that would hurt the majority of their populations. Although negotiations have resumed, significant differences remain, and most agree that an imminent conclusion seems unlikely.

The Global Rejection of the Model

Underlying the continuing faltering of the WTO negotiations and those of other agreements based on the same model is not a battle between "protectionism" and "free trade." It is also not fundamentally due to specific countries' unwillingness to concede on particular themes. Rather, the current globalization model implemented by the WTO is also being challenged increasingly by large numbers of parliamentarians, economists and civil society analysts worldwide, because the set of policies embodied in the model have proved to be harmful across the globe. This reality has generated significant political backlash in numerous countries. Clinton administration Treasury Secretary Robert Rubin was only the most recent confessor when he admitted that trade agreements like the ones he pushed while in office were unlikely "to stop the global convergence of wages," which he said "have been stagnant despite rising GDP growth" in the United States for 25 of the past 30 years.[18]

The rejection of the neo-liberal model implemented by the WTO has been especially prevalent throughout Latin America, where recent years have seen a wave of elections ushering in leaders who have made rejection of this agenda a staple of their platforms. In 1998, the people of Venezuela elected Hugo Chávez to the presidency in a rejection of his predecessors' commitment to the neo-liberal agenda. In 2002, Argentina elected President Néstor Kirchner, who ran on an anti-FTAA platform. These two countries, whose leadership have followed policies very unlike those followed through much of the 1980s and 1990s (a period of historical lows in rates of economic growth), have seen remarkable rebounds in growth rates – Argentina at an average of 9 percent per year since it defaulted on its IMF loans, raised tariffs and instituted select price controls, and Venezuela at around 6.5 percent since Chávez's government recovered from the opposition-led oil strike and instituted major social spending policies.[19] In 2003, the Bolivian people forced then-President Gonzalo Sánchez de Lozada to resign and flee the country. This forced resignation was due primarily to his fealty to neo-liberal policies that Bolivia had adopted continuously for the past 20 years, resulting in a lower per capita GDP today in Bolivia than 27 years ago and 64 percent of the population below the poverty line.[20] Bolivia's new President, Evo Morales, was recently elected on a platform of opposition to flawed trade deals.

Most recently, Costa Rica and Mexico have experienced presidential elections almost entirely dominated by debate over trade liberalization. Costa Rica's February 2006 election was, by all accounts, supposed to be an easy win for Oscar Arias, a national hero and a former Nobel Prize winner, who was a vocal supporter of the recently signed Central America Free Trade Agreement (CAFTA), a six-nation expansion of NAFTA. However, the election was excruciatingly close, with Ottón Solís, once a distant third party candidate, nearly winning the election running entirely on an anti-CAFTA platform. While Arias eventually won by a razor-thin margin in a manual recount, the fact that an election in Costa Rica, a reliable follower of U.S.-supported policies at the WTO, was even close is indicative of the breadth of the public rejection of the WTO/NAFTA model. And in July 2006, Mexico's presidential elections were also dominated by a debate over the NAFTA model, with Andrés Manuel López Obrador, who pushed repeatedly during his campaign for a renegotiation of NAFTA, calling for a manual recount after coming within half a percentage point of defeating ruling party candidate Felipe Calderón in preliminary vote counts.

Looked at together, the trend is clear: Latin American electorates are systematically rejecting the "trade liberalization" model of the WTO and NAFTA. There is increasing consensus that the rejection is based on the clear failure of the model to deliver economic growth.

India's 2004 elections also demonstrate a rejection of the corporate globalization model. Despite a multimillion-dollar campaign, the ruling Bharatiya Janata Party (BJP) was beaten by Sonia Gandhi and the Congress party. In these elections, as in Latin America's, much of the debate was centered on whether or not to continue with more of the same corporate globalization agenda. Again, the people's voices were clear: no more of the same failed globalization model.

The rejection of the WTO model can also be seen in the fact that in every region of the globe, WTO-like trade agreements have failed. Last November witnessed the collapse of trade talks around the Free Trade Area of the Americas (FTAA) – an expansion of the NAFTA-model to 34 countries. Similarly, in March 2006, Thailand announced the suspension of U.S.-Thailand trade negotiations. In April of the same year, NAFTA expansion trade talks with the Southern African Customs Union stalled.

Finally, the rejection of the privatization of utilities taking place around the globe is also indicative of this rejection of the WTO-model. In March of last year, Argentina announced the repeal of its 30-year contract with the French company Suez, and the reassertion of government control of the water supply. In the last six years, Bolivia has seen several cities reject private water contracts held by foreign companies after mass demonstrations, while in May of 2006, Bolivian President Evo Morales announced that the country's natural gas fields would be put under government control until contracts could be renegotiated in terms more in line with social equity and constitutional obligations. Peru, Ecuador, Guatemala and Mexico have also all seen protests in the past year against privatization of essential services.

The election of leaders across the globe seeking alternatives to the failed trade policies of the past, the failure of the United States to systematically expand the WTO/NAFTA model, and the massive social movements against service privatization occurring simultaneously are not coincidence. When looked at together, these events are a clear sign of a broad scale rejection of the current model of corporate globalization based on the experience of its failure.

Saving Global Trade From the WTO: Alternatives to the WTO Model

Taken together, the evidence points conclusively to a global shift away from the neo-liberal trade model embodied by the WTO based on people's experience of the model's failure. With the Doha Round's deadlock, the story to be written is about viable alternatives to the WTO model.

Instead of pinning blame on specific countries, the focus of energy should be on how the world's governments can develop a multilateral trade system that preserves the benefits of trade for growth and development, while pruning away the many anti-democratic constraints on domestic policy making contained in the existing WTO rules. Much of the backlash against corporate globalization as implemented by the WTO is aimed at the damage caused by the comprehensive one-size-fits-all, non-trade rules comprising the majority of the WTO text. These rules are designed to create a world that operates as one single homogenized global market rather than setting terms of trade between separate nations with distinct priorities and policies.

The critics of corporate globalization are *for* international trade between different, unique countries or regions when it is mutually beneficial. To strike this balance between promoting trade while respecting the laws and values of different countries, some existing international rules and institutions need to be cut back, while others need to be bolstered.

Currently, the WTO trumps all other international agreements. The WTO must be scaled back so that the human rights, environmental, labor and other multilaterally agreed public interest standards already enshrined in various international treaties can serve as a floor of conduct for corporations seeking the benefits of global trade rules. For instance, the International Labor Organization provides core labor standards; there are more than 200 multilateral environmental treaties covering toxics, air pollution, biodiversity and waste dumping; and the World Health Organization and the U.N. Charter on Human Rights provide many standards on access to medicine and food security.

Countries must also be free to prioritize other values and goals above what are sometimes countervailing demands of multinational corporations. For example, African nations facing the HIV-AIDS epidemic must be free to decide that access to essential medicines takes priority over the corporate protectionism rules in the WTO's Trade Related Aspects of Intellectual Property Rights agreement (TRIPS), which sets 20-year worldwide monopoly marketing rights on drugs. For a global trading system to enjoy broad support, its rules must not invade countries' domestic policy space on non-trade matters.

Two hundred and six civil society organizations, including social movements representing millions of people in poor and rich countries alike, support a WTO transformation program dubbed the "Stop Corporate Globalization: Another World is Possible." The International Forum on Globalization has published *Alternatives to Economic Globalization: A Better World is Possible*, which reports on proposals for alternatives gathered through years of conversations with civil society leaders, scholars and government officials in poor and rich countries. Replacing the overreaching WTO agenda with fair rules aimed at facilitating trade between willing countries is the only way forward.

ENDNOTES

[1] Numbers from Shaohua Chen and Martin Ravaillon, "How Have the World's Poorest Fared since the Early 1980's?" *World Bank Research Observer*, vol. 19, no. 2, 2004, at 152-3.
[2] Ibid.
[3] Numbers from Angus Maddison, International Monetary Fund's World Economic Outlook, April 2006, and Center for Economic and Policy Research calculations.
[4] Numbers from the United Nations Human Development Reports, 1998 and 2000, calculations by the Center for Economic and Policy Research.
[5] Number from Chen and Ravaillon, 2004, at 152-3.
[6] Nouriel Roubini and Brad Setser, "The U.S. as a Net Debtor: The Sustainability of U.S. External Imbalances," New York University Briefing Paper, November 2004.
[7] Numbers from Lawrence Mishel, Jared Bernstein and Sylvia Allegretto, *The State of Working America 2004/05,* (Washington, DC: Cornell University Press, 2004), at 154.
[8] Economic Research Service, "U.S. Agricultural Trade Update," U.S. Department of Agriculture.
[9] This number is calculated by adding the losses in the USDA's "limited resources," "farming occupation – lower sales," and "farming occupation – higher sales" farm typology categories. *See* USDA's Economic Research Service's "Farm Business and Household Survey Data: Customized Data Summaries for Agricultural Resource Management Survey," for numbers after 1996, and "Farm structure: historic data on farm operator household income" data tables for numbers prior to 1996.
[10] This number is taken from the U.S. Department of Agriculture's Economic Research Service's data on Farm Business Income Statement for All Farms, by Farm Typology, for 2003 and 1996. It refers to the loss of "limited resource" farms between 1996 and 2003, and is a measure of the profitability after expenses for these farms.

[11] *See* Todd Tucker, "Election 2006: No to Staying the Course on Trade," Public Citizen's Global Trade Watch, November 2006.
[12] Frank Ackerman, "The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections," Global Development and Environment Institute Working Paper No. 05-01, 2005.
[13] *See* Kym Anderson and Will Martin et. al. "Agricultural Trade Reform and the Doha Development Agenda," World Bank Report, Nov. 1, 2005; Ackerman, 2005, at 8 and 9.
[14] Anderson and Martin 2005; and Ackerman 2005.
[15] Sandra Polaski, "Winners and Losers: Impact of the Doha Round on Developing Countries," Carnegie Endowment for International Peace, 2006.
[16] For instance, under the likely Doha scenario, Brazil gains $1.4 billion but loses $3.1 billion in tariff revenue. Similarly, India gains $2.2 billion but loses nearly $8 billion in tariff revenue. *See* Timothy Wise and Kevin Gallagher, "Doha Round and Developing Countries: Will the Doha deal do more harm than good?" *Research and Information Center for Developing Countries*, April 2006.
[17] For example, 27 out of 32 eligible LDCs already have (or could have under current policy) duty-free access to the U.S. market on more than 97 percent of their U.S. exports. Only four – Bangladesh, Cambodia, the Maldives, and Nepal – do not, but these countries' textile and apparel-concentrated exports would be the most targeted for exceptions under any Doha deal. *See* Todd Tucker, "The WTO's Empty Hong Kong 'Development Package': How the WTO's 97% Duty-Free Proposal Could Leave Poor Countries Worse Off," ActionAid International and Public Citizen Joint Report, April 2006.
[18] William Greider, "A Conversation with Robert Rubin," *The Nation Online,* July 14, 2006.
[19] Numbers are for 2003-05 and from the International Monetary Fund's World Economic Outlook database, April 2006.
[20] Mark Weisbrot and Luis Sandoval, "Bolivia's Challenges," Center for Economic and Policy Research Report, March 2006.