

Should The WTO Be Abolished?

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Walden Bello and Phillippe Legrain tackle one of today's major issues.

DEAR PHILIPPE,

The idea that the world needs the World Trade Organisation (WTO) is one of the biggest lies of our time. The WTO came about, in 1995, mainly because it was in the interest of the US and its corporations. The European Union, Japan and especially the developing countries were mostly ambivalent about the idea; it was the US which drove it on.

Why? Because though the US, back in 1948, blocked the formation of an International Trade Organisation (ITO), believing that, at that time, the interests of its corporations would not be served by such a global body, it had changed its mind by the 1990s. Now it wanted an international trade body. Why? Because its global economic dominance was threatened. The flexible GATT (General Agreement on Tariffs and Trade) system, which preceded the WTO, had allowed the emergence of Europe and East Asia as competing industrial centres that threatened US dominance even in many high-tech industries. Under GATT's system of global agricultural trade, Europe had emerged as a formidable agricultural power even as Third World governments concerned with preserving their agriculture and rural societies limited the penetration of their markets by US agricultural products.

In other words, before the WTO, global trade was growing by leaps and bounds, but countries were using trade policy to industrialise and adapt to the growth of trade so that their economies would be enhanced by global trade and not be marginalised by it. That was a problem, from the US point of view. And that was why the US needed the WTO.

The essence of the WTO is seen in three of its central agreements: the Agreement on Trade Related Intellectual Property Rights (TRIPs), the Agreement on Agriculture (AOA), and the Agreement on Trade Related Investment Measures (TRIMs).

The purpose of TRIPs is not to promote free trade but to enhance monopoly power. One cannot quarrel with the fact that innovators should have preferential access to the benefits that flow from their innovation for a period of time. TRIPs, however, goes beyond this to institutionalise a monopoly for high-tech corporate innovators, most of them from the North. Among other things, TRIPs provides a generalised minimum patent protection of 20 years; institutes draconian border regulations against products judged to be violating intellectual property rights; and – contrary to the judicial principle of presuming innocence until proven guilty – places the burden of proof on the presumed violator of process patents.

What TRIPs does is reinforce the monopolistic or oligopolistic position of US high tech firms such as Microsoft and Intel. It makes industrialisation by imitation or industrialisation via loose conditions of technology transfer – a strategy employed by the US, Germany, Japan, and South Korea during the early phases of their industrialisation – all but impossible. It enables the technological leader, in this case the US, to greatly influence the pace of technological and industrial development in the rest of the world.

The AOA is all about consolidating the monopolistic competition between the US and the EU for third country markets. The agreement does provide for cuts in certain subsidies, but these cuts are relatively small measured against the tremendous overall level of subsidisation in the US, EU, and other developed countries. Moreover, the AOA exempts a very important channel of subsidisation: direct income payments to farmers, which in the US comes to one-fifth to one-third of farm income.

The subsidisation of agricultural production in the US, EU, and other developed countries is now nothing short of scandalous. OECD figures show that instead of decreasing under the WTO regime, overall subsidisation has increased tremendously, from around \$182 billion in 1995 to \$362 billion in 1998! Naturally, this situation creates conditions of overproduction and a huge need for export markets to relieve surplus. These markets are in the developing countries, which the AOA mandates to remove agricultural quotas, bind agricultural tariffs, accept 'minimum access volumes' of agricultural commodities, and prevent from significantly raising their minimal levels of

subsidisation. Food insecurity and the displacement of millions of families who cannot compete with subsidisation from elsewhere are among the bitter harvests of the AOA.

Trade-Related Investment Measures (TRIMs), such as trade-balancing mechanisms or local content policies, had been used by many Third World countries to build up industrial sectors by pushing transnational firms to source components and inputs within the country. However, these measures interfered with the inter-subsidiary trade of transnational corporations. Alongside the banning of quotas and the binding of tariffs, the TRIMS agreement, by outlawing trade-balancing and local content policies, effectively eliminates the use of trade policy for industrialisation and development.

These agreements provide just three examples of the fact that the WTO is fundamentally flawed; and fundamentally flawed agreements resist reform.

So why does the line about the necessity of the WTO keep on being repeated despite the empirical evidence? Because Washington has learned from the Nazi propaganda master Joseph Goebbels that a lie repeated often enough might ultimately attain the status of truth. Fortunately, after Seattle, people now see through this Big Lie. The world does not need the WTO. The US corporate elite does.

Walden Bello

DEAR WALDEN,

A convincing case for the WTO's abolition must show two things. First, that the world would be better off without the WTO. Second, that the WTO's abolition is preferable to any politically feasible reform. You fail to show either.

Abolishing the WTO would not destroy globalisation, capitalism, or US corporate power. But it would wipe out a forum for governments to negotiate multilateral trade rules and a mechanism for holding them to those rules. That would make every country worse off, but the biggest losers would be the poor and the weak.

One benefit of rules is that they apply to big, rich countries as well as small, poor ones. When America blocked imports of Costa Rican underwear, Costa Rica appealed to the WTO. It won, and America lifted its restrictions. Do you honestly think Costa Rica would have such clout in Washington without the WTO? Granted, the dispute-settlement mechanism is not perfect: America has a battery of lawyers to fight its corner, whereas small countries scrimp. It should be improved. But it is already much better than the alternative: the law of the jungle, where might makes right.

Another merit of WTO rules is that they tie governments' hands. Once countries open their markets to foreign trade and investment, they cannot close them again at whim. Without this stability, companies would be reluctant to invest abroad, particularly in developing countries with a protectionist or politically unstable record. Abolishing the WTO would further marginalise developing countries.

If there were no prospect of further multilateral liberalisation and no body to enforce existing rules, trade barriers would creep up as protectionists gain the upper hand. The world might split into hostile regional blocks, with rich-country exporters seeking captive markets in developing countries. Developing countries, which need access to rich-country markets more than rich countries need access to theirs, would have to join on unfavourable terms or be left out in the cold.

In any case, there would be less trade. And less trade means slower economic growth, stagnating living standards and more people trapped in poverty – like in the Great Depression. Over the past 50 years, the 15-fold rise in world trade has driven a seven-fold rise in world output. Thanks to trade, Japan and South Korea are no longer developing countries. Jeffrey Sachs and Andrew Warner of Harvard University found that developing countries with open economies grew by 4.5 per cent a year in the 1970s and 1980s, while those with closed economies grew by 0.7 per cent a year. At that rate, open economies double in size every 16 years, while closed ones must wait a hundred. Of course, in the short term some people lose from trade liberalisation. But in the long run, everyone gains: even the poorest South Koreans today are much richer than their counterparts 30 years ago.

Let me briefly address your specific points.

If the WTO mainly serves US corporate interests, why have 139 countries freely joined? Why are 30 others, including China, trying to join? Why is Castro, hardly a US stooge, a big WTO supporter? Presumably, they think WTO membership benefits them. Moreover, if the WTO mainly serves US corporate interests, why do America's steelmakers oppose WTO membership? And how come the US lost the biggest WTO case ever, when its foreign-sales corporations, worth some \$4 billion a year to US companies, were judged to be illegal export subsidies?

On TRIPs, you recognise that innovators should have some rights over their inventions. So why shouldn't high-tech corporate innovators, such as Microsoft and Intel? True, intellectual-property rights give companies market power: that is how innovators are rewarded. But as recent US antitrust cases involving Intel and Microsoft show, patent protection does not prevent the exercise of competition law.

It is simplistic to think that countries can industrialise by copying or reverse-engineering foreign technology. Most technology can only be used effectively with the co-operation of the companies that developed it, which have associated secret know-how. Such technology transfer is more likely with a functioning intellectual-property system. Research shows that strong patent protection is positively correlated with FDI, technology licensing and international trade. Contrary to your claim, patent protection was built into the American constitution and has a long history in Germany, Japan and South Korea.

On agriculture, you cannot blame the WTO for US and EU subsidies: they existed before the WTO. I agree they should be cut. So you should welcome the current WTO negotiations on agriculture, which aim to reduce agricultural protectionism. How would abolishing the WTO reduce farm subsidies?

The TRIMs agreement does not 'effectively eliminate the use of trade policy for industrialisation and development'. Yes, it outlaws trade-balancing and -domestic-content requirements, which in any case research shows are ineffective. But governments can still use investment measures such as technology-transfer requirements. Moreover, developing countries can invoke exceptions to promote economic development, and have a five-year transition period (seven for least-developed countries). Nine developing countries have requested a further extension, but most have not needed to.

The WTO is not perfect. But it is still a powerful force for good in the world.

Philippe Legrain

DEAR PHILIPPE,

Your method of arguing is to set up a straw man: opponents of the WTO are opponents of the growth of trade. This is silly. Trade can be good or bad for national development – it all depends on the rules that guide it. The relative flexibility of the old GATT has disappeared under the WTO, which imposes policies which advance the interests of superpowers.

Your most prominent example of the benefits of liberalisation – South Korea – proves the opposite. Far from being a paragon of free trade, South Korea systematically subordinated trade to developmental goals. The recent paucity of foreign cars in Korea was a key condition for the emergence of its car industry. The 'South Korean miracle' was based on protectionist/mercantilist trade practices, not on the doctrinaire free trade principles that undergird the WTO.

I had expected a more reasoned reply than a doomsday scenario asserting that without the WTO, the international economic order would degenerate into anarchy or hostile regional blocs. The history of the international economy in the last 55 years refutes this hysterical contention. The seventeen-fold increase in global trade between 1948 and 1997 took place without a powerful trade bureaucracy, without an all-encompassing system of trade rules.

Five years into the WTO, hardly any developing countries claim it has benefited them. Just look at the record: US and EU dumping of subsidised grain and meat is destroying agricultural industries, like the poultry industry in the Philippines. The US and other trade superpowers have scarcely implemented the lifting of quotas on textile and garment imports of interest to the developing countries, as stipulated by the Agreement on Textiles and Clothing. The Ministerial Decision approved at Marrakech in 1994 to take measures to counteract the negative effects of trade liberalisation on the net food importing countries (NFID) has never been implemented. These are among the reasons why the majority of developing countries oppose a new trade round.

So why are they in the WTO? In the case of most, it is not from the prospect of gain but out of fear that the rate at which they are being marginalised would increase if they were not members. You can hardly blame them: in 1994, Washington stampeded Third World governments to ratify the WTO by saying they would otherwise be isolated 'like North Korea'.

You say that the function of the WTO is to provide rules to protect the weak from the strong. Do you really believe this? It is power, Philippe, not justice, which is the currency of unequal international economic arrangements like the IMF, World Bank, and WTO. The main rationale for the WTO's existence is to reduce the cost of policing the less powerful and less developed economies that would be incurred by the hegemonic power if there were no system of rules backed up by a bureaucracy with coercive powers. This is the reason Washington's academic point man on trade, C Fred Bergsten, could tell the US Senate that what was not possible under GATT was possible under the WTO: '[W]e can now use the full weight of the international machinery to go after those trade barriers, reduce them, get them eliminated.'

The WTO is the incarnation of a paradigm that subordinates almost every other good – environment, development, food security, culture – to free trade. Shot through with this fundamental flaw, it cannot be reformed. Instead, it must be disempowered, if not abolished, and replaced by a system of global economic governance that regards the market as a mechanism to be controlled and guided to achieve social priorities.

Walden Bello

DEAR WALDEN,

I'm disappointed that you seem not to have read my letter carefully. I didn't say that 'opponents of the WTO are opponents of the growth of trade'. I said trade would be lower without the WTO. Nor did I say the world 'would degenerate into anarchy or hostile regional blocks' without the WTO. I said protectionism would creep up and the world might split into hostile regional blocks. Do you disagree? If so, you haven't said why. If not, you haven't shown how the reduced trade and increased protectionism that would result would benefit the world.

My position is clear. The WTO is good for the world because it helps lower trade barriers and keep them down, which boosts trade and thus economic growth. Countless country studies show this. Moreover, a rules-based system is of particular benefit to weaker countries. Of course, with or without the WTO, America is much more powerful than Cuba or Costa Rica. But equally clearly, WTO rules constrain America's ability to act unilaterally. Surely this is a big benefit for weak countries? What I'm saying is not inconsistent with your statement that WTO rules benefit America. The multilateral trading system is not a zero-sum game, where one country gains at another's expense, but a positive-sum game, where everyone can gain.

You claim most developing countries are in the WTO because they 'fear that the rate at which they are being marginalised would increase if they were not members'. Even accepting your premise, this means they are not as badly off in the WTO as outside. In fact, developing countries benefit from WTO membership, by opening their domestic markets and gaining better access to foreign ones. That is why none has left the WTO. I agree rich countries have been slow to lift textile-import barriers. But they will do so by 2005. Without the WTO, that would not happen. Moreover, a new WTO round could bring even bigger benefits. The Tinbergen Institute estimates developing countries would gain \$155 billion a year from further trade liberalisation – over three times the \$43 billion in average annual overseas aid.

You also claim the WTO 'subordinates almost every other good – environment, development, food security, culture – to free trade'. Not so. WTO rules allow governments to protect human, animal or plant life and health however they want so long as their measures are not arbitrarily or unjustifiably discriminatory and are not disguised protectionism. Take the recent asbestos case. Although a WTO panel found that France's ban on white asbestos discriminates against Canada, it upheld the ban on health grounds. WTO rules also give developing countries plenty of flexibility, as I described in my first letter. The Agreement on Agriculture makes allowances for non-trade concerns, such as food security and environmental protection. Perhaps more importantly, by fostering trade, the WTO raises economic growth, which is the only long-term route to development. Growth also generally helps the environment, because when people get richer they usually want a cleaner environment and are able to pay for it.

From the false premise that WTO subordinates everything to free trade, you leap to the conclusion that it 'cannot be reformed'. Yet the GATT became the WTO. So why couldn't the WTO change? Reform of the dispute-settlement mechanism is already being discussed. Moreover, a new WTO round will have to address developing countries' agendas or they will not agree to its launch.

It is a pity that you blame the WTO for everything you dislike. Your prejudice blinds you to the fact that, in an unequal world, the WTO makes people richer, freer and safer.

Philippe Legrain

DEAR PHILIPPE,

Before you muddy things further, let me say this: I am for fair trade – trade that is subordinated to priorities such as development, the environment, and food security. You are for free trade – trade that is liberated from such restraints in the belief that some 'invisible hand' will bring about 'the greatest good for the greatest number'. The WTO institutionalises this paradigm, which has brought about the opposite of the global prosperity that you touchingly have faith in.

Statistical projections are only as good as the assumptions that determine the numbers. I prefer historical evidence. The latest World Bank Development Report shows that, in the 90s, poverty and inequality increased in Eastern Europe, Latin America, the Caribbean, Sub-Saharan Africa and South Asia. All these areas were subjected to SAPs that embodied the IMF-WTO free-trade paradigm.

If we must forecast, let us rely on universally-respected sources such as the UN Development Programme. The UNDP estimates that, under the WTO, in the period 1995-2004, the 48 least developed countries will actually be worse off by US\$600 million a year and Sub-Saharan Africa by US\$1.2 billion a year! 70 per cent of the gains of the Uruguay Round are expected to go to developed countries.

We cannot conclude without touching on one of the WTO's biggest flaws: its undemocratic decision-making process. Shortly after Seattle, even US Trade Representative Charlene Barshefsky conceded that the

'Consensus/Green Room' method was 'a rather exclusionary one,' where 'all meetings were held between 20 and 30 key countries, and 100 countries were never in the room.' But barely 10 weeks later, Director-General Mike Moore said that the Consensus/Green Room method was 'non-negotiable'. So much for Mr. Moore's reform agenda.

Add all this up, Philippe, and it might finally dawn on you why the case for disempowering the WTO is so compelling.

Walden Bello

DEAR WALDEN,

Whether you or I believe in free or 'fair' trade is beside the point. It is simply incorrect to assert that the WTO subordinates development, the environment and food security to trade. Read the GATT and Uruguay round texts. It is also ridiculous to blame the WTO for world poverty, which existed long before the WTO was set up. As for the IMF's structural-adjustment programmes, they have nothing to do with the WTO.

We are debating whether the WTO should be abolished, not whether there is injustice or misery in the world. Our question can only be answered by comparing the state of the world with the WTO (or a plausibly reformed WTO) with the likely state of the world without it. You say 70 per cent of the gains of the Uruguay round are expected to go to developed countries. That means 30 per cent go to developing countries. So, even by your figures, both developed and developing countries gain from the Uruguay round.

I am glad you brought up the alleged lack of democracy in WTO decision-making. The WTO operates by consensus. This means every country, however small, has a veto. How is that undemocratic? It is this consensus principle, not the Green-Room process, which Mike Moore said was non-negotiable.

One of the myths about Seattle is that there were no Africans and hardly any developing-country representatives in the Green Room. In fact, there were six Africans and a majority from developing countries. Moreover, any deal reached in a Green Room must still be approved by all WTO members. In any case, the WTO is changing. More General Council meetings, where all members can put their case, were held this year than ever before. Proceedings take longer, but every country has a chance to participate. Perhaps you should come to Geneva and see.

Philippe Legrain

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