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WTO Could Affect Trade Negotiation

by LADB Staff

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The collapse of the World Trade Organization (WTO) negotiations in Cancun, Mexico, in September could have a significant bearing on the future of the Free Trade Area of the Americas (FTAA), the hemispheric trade pact the administration of US President George W. Bush wants in place by 2005 (see NotiSur, 2002-11-08, 2003-06-13). Negotiations in Cancun derailed largely because of differences regarding US agricultural subsidies, and negotiators declared the talks a failure and canceled the meetings late on Sept. 14 (see NotiCen, 2003-09-18, SourceMex, 2003-09-24).

Developing countries and many civil-society groups also opposed the policies being pushed by the US and European Union (EU) in the WTO because of the restrictions they would place on governments' ability to act in the public interest and because of the power they would grant to multinational corporations.

"The policies being pursued and the undemocratic process that is inherent in the WTO, NAFTA, the proposed FTAA, and other corporate-driven trade arrangements will no longer be stood for," said Jennifer Esposito, legislative representative of the International Brotherhood of Teamsters. "This is a victory for working people around the world."

Though many countries said they were still committed to the WTO talks, few expect any serious advances before the US presidential election late next year. The breakdown in the trade talks will increase pressure on the Bush administration regarding trade issues during the election year since the president faces growing criticism from Democrats because of the loss of more than 2.5 million manufacturing jobs.

US trade officials said that the newly formed Group of 22 (G-22) developing countries, which they blamed for the breakdown in negotiations at Cancun, had missed a valuable opportunity to get the US and other rich countries to open their markets. "They lost sight of the political circumstances in the US," said one US trade official. "We came here at the maximum point of political flexibility. The political reality is that it's not going to get any easier after Cancun and is likely to get harder."

Brazil sees Cancun failure as a success

Following the Cancun meeting, Brazil's President Luiz Inacio Lula da Silva expressed his optimism regarding the future of the region and said he considered the Cancun meeting a success. "In Cancun, an extraordinary event occurred our relation with the developed world changed." Lula said that "although we did not get what we wanted approved, we also prevented them [the US and the EU] from having what they wanted approved, which was to consolidate the policy of subsidies" for agriculture. "We are not asking for privileges or favors. We want foreign trade policies that treat us as equals and where we have the opportunity of competing freely." The Bush administration saw Cancun differently.

In an op-ed article in London's Financial Times following Cancun, US Trade Representative Robert Zoellick said the US would not wait for "the won't-do countries," and he said that the Cancun meetings were derailed because of "increasingly radical rhetoric." "As WTO members ponder the future, the US will not wait: we will move toward free trade with can-do countries," he wrote. But that approach has received criticism from politicians, economists, activist groups, labor unions, and even business organizations.

Clyde Prestowitz, president of the Economic Strategy Institute, a Washington-based economic think tank, wrote in The Washington Post that the Bush team would do better to use its unilateral approach to eliminate developing countries' concerns rather than to strike more trade deals. The US, he said, "should forget about being a shrewd Yankee trader and just cut the [agricultural] subsidies unilaterally." "Doing so would not only help US consumers it would help preserve the principles and framework of nondiscriminatory global trade, to which this country has long been committed," Prestowitz said.

Future of "peace clause" in question

The abrupt end to the Cancun meeting prevented discussions regarding extending the "peace clause," which the US and EU favored. The peace clause, enacted in the 1994 Uruguay Round agreement, prevents countries from complaining to a Dispute Settlement Body (DSB) about agriculture subsidies by other WTO member states. It is due to expire on Jan. 1, 2004. A WTO meeting in Geneva in mid-December is the last chance for an extension, but developing nations that suffer most from heavily-subsidized exports are unlikely to agree without concessions from key subsidizing nations such as the US, EU, and Japan, experts said.

"As we speak today, the peace clause will come and go," predicted Canada's WTO Ambassador Sergio Marchi. "In the aftermath of Cancun, I hope that people don't use the DSB vindictively...to get even or settle scores." An EU trade official predicted that failure to negotiate an extension by December would result in "quite a lot" of trade disputes, and a sharp rise in disputes would further prolong the Doha round of talks on global trade.

G-22 countries test their clout

The G-22, formed in large part to bring together agricultural-exporting countries to fight the farm subsidies, has emerged as a new force that can act as a counterweight to the dominant powers in the WTO. If the new bloc had not taken a firm stance in Cancun, what had previously been agreed by the US and the EU would merely have been ratified, said Brazilian Foreign Minister Celso Amorim. However, "the movement...can take on other forms and groupings," said Theotonio dos Santos, a professor of international economics at the Universidade Federal Fluminense in Niteroi, a city near Rio de Janeiro. The important thing is "to consolidate the central core, a pole of attraction" which should comprise Brazil, China, India, Russia, and South Africa, he said.

In Cancun, the G-22 occupied the space traditionally occupied by the Cairns Group, 17 agricultural-exporting nations that have been fighting the US and EU agriculture subsidies since the 1980s.

The G-22 has not replaced the Cairns Group, but merely represents "an evolution, because Cairns was unable to respond to the challenge of Cancun," said Pedro Camargo Neto, an adviser to the Sociedade Rural Brasileira. Latin America accounts for 13 of the G-22 countries, and Brazil played a key role in the G-22's formation.

Members included Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, and Paraguay which are also Cairns Group members as well as Cuba, Ecuador, Mexico, Peru, and Venezuela. El Salvador dropped out during the Cancun meeting. The other members of the bloc are China, Egypt, the Philippines, India, Indonesia, Nigeria, Pakistan, South Africa, and Thailand. Only five Cairns Group members Australia, Canada, Malaysia, New Zealand, and Uruguay have not joined the new bloc.

"Cairns is working closely with the G-22," and there is no need for the two blocs to merge, said Camargo Neto. World Bank President James Wolfensohn said the emergence of the G-22, led by big agricultural exporters like Brazil, India, and China, has given rise to a new paradigm of global financial relations for the 21st century, and has demonstrated that poor countries can act as an effective counterweight to the rich.

"This is the first time in many years that the countries of the South have shown such capacity for working together and forging alliances," said Antonio Romero of the Sistema Economico Latinoamericano (SELA). But that unity may not last, say observers in Latin America. Complaints are growing that the US is pressuring countries to abandon the G-22.

In early October, sugar-cane growers in Colombia said the US had pressured Colombia to back away from the group. The enticement was the huge amount of US military aid and the future of a bilateral free-trade agreement between Colombia and the US. Peru and Costa Rica also wavered at about the same time, reportedly in response to pressure from Washington.

While Washington denied applying pressure, US trade negotiators have made it clear that countries need to evaluate whether it serves their interests to belong to a group that, as one US official said, "has another agenda, that brought about the collapse of the talks in Cancun."

Meanwhile, Argentina moved to consolidate the G-22 (now perhaps the G-19) by hosting a meeting on Oct. 10 of the foreign ministers of the member countries. The purpose was to look ahead to the WTO meeting in Geneva in December. Economy Minister Robert Lavagna said such a consolidation could help the WTO by offering something that it has lacked a balance to the interests of some developed countries.

Fallout on FTAA puts its future in question

A significant consequence of the fiasco in Cancun is the possible delay of the FTAA. "The outcome of the meeting will have an impact on all regional negotiations, including the FTAA talks and timetable," said Venezuelan Minister of Production and Trade Ramon Rosales. "One prediction...is that countries will turn more and more to bilateral accords."

It seems certain that the FTAA will not be finalized by 2005, said Ivonne Juez de Baki of the Foreign Trade Ministry of Ecuador. Juez de Baki said the Cancun meeting made it clear to everyone that the FTAA was not going to move forward as smoothly as they had thought it would. The US and Brazil will co-chair the FTAA ministerial meeting in November in Miami, and the differences between the two, so clear in Cancun, have not disappeared. They are at odds over the scope of the negotiations to create the FTAA.

Brazil has argued for a more focused accord while the US wants a more ambitious and wide-ranging pact. Brazil has proposed an FTAA that excludes service, investments, and procurements, with a priority on negotiation for a freer access to markets. Some of these topics were part of the WTO's "Singapore issues," disagreement on which helped bring about the Cancun collapse.

"With the introduction of the Singapore agenda, the Doha round became like an overloaded plane," said Brazil's Amorim. "If we learn the lesson from that, and focus on what is truly free trade and opening of markets, I think we have chances of moving forward more quickly [on FTAA]." The negotiating agenda of the FTAA must be simplified if the project is not to suffer a similar fate as the WTO talks in Cancun, Amorim warned. Noting that the FTAA agenda includes many proposals for new trade rules, he said, "If we were to deal with all that within the FTAA, it would become inviable within the [established] time frame."

Brazil's Agriculture Minister Roberto Rodrigues said that either the discussion of an end to agriculture subsidies returns to the FTAA or the FTAA will be halted. Washington, however, insists on an "ambitious" agreement that includes the Singapore issues and eliminates the discussion of agriculture subsidies and anti-dumping laws, which the US wants to negotiate only within the WTO, despite the delay in the Doha round following the collapse of the talks at Cancun.

While the US acknowledges the need for "some balancing in the overall package," it says it has no intention of abandoning the FTAA process or of radically scaling back the talks. Though Brazil and the US deny they are in a race, both sides have been vying to sign free-trade deals with countries throughout the region in an effort to strengthen their negotiating power.

Brazil was instrumental in a free-trade deal between Peru and the Southern Cone Common Market (MERCOSUR) in August, and Lula sought this month to clinch a similar deal with Colombia. Yet Colombia, Peru and other countries are at the same time seeking bilateral trade deals with the US, on which they depend for aid and investment. And the US is trying to craft the Central America Free Trade Agreement (CAFTA).

In light of Brazil's strong position, Chilean economist Claudio Lara said the result of Cancun could be the exclusion of Brazil from the FTAA. Lara said that "the tendency seems to be an FTAA without some countries, like Brazil, and also toward a strengthening of subregional agreements, such as MERCOSUR, the bloc that the Brazilians would like to enhance.

Few other analysts see an FTAA without Brazil. A preparatory meeting for Miami was held in Port of Spain, Trinidad and Tobago, in early October. The US and Brazil admitted that their significant differences would require lots of compromise to have an FTAA by 2005.

Ross Wilson, head of the Bush administration's negotiating team, said discussions failed to bridge the wide disagreements threatening the Miami meeting. He did not concede that the Miami discussions were headed for the same fate as the Cancun negotiations, but he said the US would conduct intensive discussions in coming weeks trying to work out the disagreements. "It is our intention to work to make Miami a success," Wilson said. "We will be discussing with other interested countries to see if we can find ways to bridge the gap." He said that President Lula had expressed support for the goal of completing FTAA talks by the 2005 deadline when he met with President Bush in June at the White House.

Discussing the FTAA talks last month, however, Lula said, "In the world of negotiations, there is no room for subservience." He said the needs of manufacturing and farm groups in Brazil and all other countries in the negotiations must be dealt with by finding common ground. Amancio Jorge de Oliveira, a research director for Prospectiva Consultoria, a Sao Paulo, Brazil, trade consulting firm, said the failure to progress in Port of Spain was "a very bad signal" for prospects in Miami. He put chances that negotiators would reach agreement on an FTAA by the January 2005 deadline at 20%, "and I'm being generous."

On Oct. 4, in Rio de Janeiro, Amorim accused the US of making "threats" and exercising "very destructive" pressure to push forward the FTAA. In statements published in the Folha de Sao Paulo, Amorim said the US government was not convincing the countries of the region, instead it was "making threats." And, he said, "we all know the fire power of the US, in all senses."

MERCOSUR also playing a role

Adding to the mix is a growing possibility that MERCOSUR and the Comunidad Andina de Naciones (CAN) will form a trade pact by the end of the year, which would give South American nations greater leverage in the FTAA debates. The two groups have agreed to conclude trade talks before Jan. 1, 2004. Merging MERCOSUR, already the world's third-largest trade group, with CAN would mean a union with a combined GDP of US\$1.2 trillion and a population of 370 million people.

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