

BANK AND FUND WATCHERS MUST WATCH WTO

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November 2001

Members of the World Trade Organisation (WTO) are meeting in Doha, Qatar from 9 - 13 November amidst heightened security and a growing gulf between industrialised members and developing countries over substantive provisions in the WTO agreements and the WTO negotiation process. Many of these issues will involve the activities of the World Bank and the International Monetary Fund as the Bank and Fund inch closer towards streamlining their policies with those of the WTO, and vice-versa. This Bretton Woods Project briefing discusses why Bank and Fund watchers should keep a close eye on the WTO negotiations.

Introduction

The World Trade Organisation (WTO)'s Fourth Ministerial Meeting begins on Friday, 9 November 2001. For a week, trade ministers from the WTO's 142 member countries will meet in Doha, Qatar. It is unlikely, given the high security that any form of civic protest such as the street demonstrations which contributed to the failure of the last ministerial round in Seattle in 1999 will take place in the Arab emirate. It also looks unlikely that the dramatic walk-out led by the African and Caribbean delegations leading to the eventual collapse of the Seattle Round will repeat itself.

However, disharmony among the nations heading to Qatar is palpable. Developing countries are unhappy with the text for negotiations at Doha. Chakravathi Raghavan of the South-North Development Monitor (SUNS) have described the draft negotiating texts as "the most biased" in the 53-year history of the trading system which began in 1948 (Raghavan, 2001b).

The Draft Ministerial Declaration reiterates the need for closer cooperation between the WTO and the Bank and Fund. This looks likely to further reinforce the links between the three institutions, making it imperative for World Bank, IMF and WTO watchdogs to collaborate more on issues of mutual concern.

Paragraph Five of the declaration states that the WTO "shall continue to work with the Bretton Woods institutions for greater coherence in global economic policymaking". Coherence can be translated to mean the streamlining of World Bank and IMF policies on trade and trade-related issues to reflect provisions within the WTO. This has already happened in various sectors, to the detriment of developing countries and will be discussed further below.

Increased cooperation between the WTO and the Bank and Fund - including close contact between the three bureaucracies - will further marginalise southern governments from the process of global economic policymaking, creating an exclusive concentration of executive power which undermines the sovereignty of nation states to determine their own economic future.

The leverage the World Bank and the IMF have on the economies of southern nations, chiefly through their structural adjustment programmes, make them useful allies to the northern-controlled WTO in pushing through its trade agenda. Similarly, the WTO with its strict enforcement mechanism, can serve to entrench the structural adjustment reforms made in developing countries through the years, particularly those related to private sector investments.

As it stands, the overarching neoliberal philosophy of market-centred growth permeates the policies of all three institutions. The World Bank, for example, has long pursued trade liberalisation goals in its country assistance strategies. Between 1981 and 1994, it made 238 loans supporting liberalisation of trade or foreign exchange policies to 75 different countries. Since 1995, the year the WTO was born, 54 structural adjustment operations (pre-requisites for debt relief or loans) have supported such reforms (Jordan 1999, Wilks, 2001).

Coherence among the three institutions makes sense for the implementation of these goals. An internal report of the World Bank in 1998 comments that the IMF and World Bank can assist the WTO by enhancing the trade community's understanding of issues within their specialisation, such as foreign direct investment and sustainable development. Meanwhile, the WTO's "considerable legal and technical expertise in trade liberalisation and related commitments, including the trade-in-services, can be helpful to the formulation of policies in the IMF and World Bank" (World Bank, 1998).

Iron-caging the global economy

The danger of greater coherence in the policy formulations of the Bank, Fund and the WTO is that there will be little room for countries outside the Quad - United States, Japan, the European Union and Canada - to influence global economic decision-making. With the three institutions controlled by a handful of industrialised countries and subscribing to a common agenda of trade liberalisation, deregulation and stringent intellectual property rights protection, there is very little room for developing countries to implement policies which suit their own domestic needs and to protect their own domestic economies. There does not seem to be an alternative forum in which developing countries are able to seek assistance and support.

Walden Bello, director of Bangkok-based advocacy group, Focus on the Global South, says that the WTO was established both to manage the trade rivalry among the leading industrial nations while at the same time containing the threat posed by rapidly expanding southern economies, notably the newly-industrialised countries (NICs). "In this sense, the WTO must be seen as a continuation or extension of the same northern reaction that drove structural adjustment," says Bello (Bello, 1999).

Bello speaks of "an iron cage of three overlapping bureaucracies and mandates where southern aspirations and interests are structurally constrained". Southern voices have already been sidelined in the WTO negotiation process, in spite of its proponents arguing that the 'consensual' decision-making process at the WTO are more democratic than the voting structures of the World Bank and IMF which give substantial voting rights to industrialised countries based on their sizeable contributions.

The revised Draft Ministerial Declaration, for example, commits ministers to negotiate new agreements on issues, known as the 'Singapore issues': investment, competition, transparency in government procurement and trade facilitation, which goes against the expressed wishes of the majority of developing countries in statements to the WTO General Council in October (Khor, 2001a). Reservations expressed by the Least Developed Countries (LDCs) in their statement issued by the South Centre on the first draft were virtually ignored in the second draft.

'Locking-in' Structural Adjustment

The Bank and Fund's reluctance to address the fundamental flaws in the WTO's neoliberal approach to growth and development may well lie in their need to entrench reforms effected through their structural adjustment programmes in developing countries. Rick Rowden of the RESULTS Educational Fund suggests that the Bretton Woods institutions are eager to 'lock-in' the liberalisation and deregulation exercises made over the 20 years of their involvement in structural adjustment lending. Once financial leverage over the indebted countries has ended, Rowden argues that the Bank and Fund require another means of holding together the reforms for the sake of private sector beneficiaries (Rowden, 2001).

With the WTO institutionalising free trade through its most favoured nation and national treatment principles, the economic liberalisation process forged by the Bank and Fund in developing countries is cemented. Bello says by agreeing to ban all quantitative restrictions and reduce tariffs on imports, developing countries have given up the use of trade policy to pursue industrialisation objectives, such as achieved by the NICs in the 1980s and early 1990s (Bello, 1999). At risk are the LDCs, whose economies, already ravaged by structural adjustment programmes, have now to face another onslaught of tariff-cutting measures and investment liberalisation under the WTO regime.

The WTO dispute settlement process is an 'investor protection' mechanism designed to ensure developing countries do not renationalise privatised industries nor back-track on agreements for financial deregulation and trade liberalisation. Joining forces with the WTO not only secures the "hard-fought gains" of structural reform (Rowden, 2001), it also enables the Bank and Fund to continue securing legitimacy for further lending on these matters.

Raghavan says coherence in economic policymaking among the three institutions "could only result in the continuance of the IMF and the World Bank in using the WTO to influence and change trade policies of developing countries". Given the unequal power structures of the Bretton Woods institutions, these institutions have no effect or influence on trade policies of the developed countries, he states (Raghavan, 2001a).

The Bank's role in furthering trade liberalisation

The World Bank's role as the leading source of development funding means it wields tremendous clout. Aside from incorporating trade liberalisation clauses as conditionalities in loan agreements, the Bank has also ventured into providing specific

"capacity-building" loans to prepare countries for accession into the WTO as well as to assist them in bringing their domestic legal and regulatory institutions in line with WTO requirements.

The Integrated Framework (IF) programme launched by the Bank, Fund and WTO in conjunction with UNCTAD and UNDP in 1996 was aimed at providing technical assistance to least developed countries to enable them to harness trade as a tool for development. Known as the Integrated Framework for Trade-Related Technical Assistance for Least Developed Countries, the IF programme - supported by a trust fund financed by bilateral development agencies - incorporates trade priorities into countries' Poverty Reduction Strategy (PRS) process. It identifies areas of trade-related activity which require technical assistance and supplies the countries with technical expertise financed through the 'capacity-building loans' (World Bank, 2001a).

Without the appropriate institutional framework and corresponding administrative support structures, many developing countries face the risk of breaching obligations under the WTO and not having the expertise at hand to defend themselves at the WTO dispute settlement panel should cases be brought against them by industrialised countries with armies of legal consultants at their disposal (Helleiner, 2000).

However, the answer to the inequities of the global trading system established by the WTO is not merely to lend countries more money - many of them are already facing an unsustainable debt burden - to construct WTO-friendly institutions but to call for a halt in the WTO process until all existing problems can be publicly debated and addressed. This is something the Bank can do in its role as a development agency, particularly when its stated goals are poverty reduction and economic growth.

The Bank's fervent promotion of its 'capacity-building loans' has understandably led to charges that the Bank is feathering its own nest. Njoki Njoroge Njehu, director of 50 Years Is Enough, says such loans have come at a time when project lending is on the decline. Not only are structural adjustment loans cheaper to make and administer, Njehu notes that such policy loans are subjected to less scrutiny and criticism than project loans which carry the anticipated risks of social and environmental impacts (Aslam, 2001, Rowden, 2001).

Charges of this nature are difficult to dismiss especially when the Bank has is also making a substantial number of loans to developing countries to implement social safety net programmes to mitigate the effects of trade liberalisation (Rowden, 2001). "The World Bank," says Lisa Jordan of the Bank Information Centre, "seems to have chosen to help mitigate the impacts of the trade regime on its borrowers instead of reshaping the rules of negotiation and defending the right to develop" (Jordan, 1999).

No Development Agenda

Defending the right to develop would mean defending the right of developing countries to implement, at their own pace, the provisions of the WTO and the right of these countries to negotiate multilateral agreements on terms favourable to their domestic economies. This will not be the case at Doha.

Khor states that despite the rhetoric, there is no sight of a Development Agenda within the proposed agenda of the Doha meeting. Instead, the draft makes "inaccurate claims about the wonders of the trade system" with "no mention of the downside of the operations of trade, such as the massive losses to poor countries and poor people from the continuous decline in commodity prices and terms of trade" or threats to domestic industries from cheap imports due to the slashing of trade barriers (Khor, 2001a).

One example will be the issue of industrial tariffs. Paragraph 16 of the revised draft declaration maintains the launch of negotiations to reduce such tariffs in spite of more than half the WTO membership expressing dissent over this move. The group of Least Developed Countries (LDCs) and a group of seven African nations specifically submitted that negotiations should not proceed until a study is initiated on the effects of previous tariff-cutting exercises in developing and least developed countries, including the unilateral reduction of tariff barriers under World Bank and IMF structural adjustment policies and poverty reduction strategies (Khor, 2001b, Raghavan, 2001). "This proposal arose because of the anxieties of these countries that their local industries have already been very adversely affected by previous industrial tariff cuts," says Khor (Khor, 2001b). This concern was ignored by Harbinson in both the original and revised versions of the draft declaration (Khor, 2001b).

In its briefing paper *Leveraging Trade for Development* in April this year and the recently released report *Global Economic Prospects and the Developing Countries*, the World Bank stressed the need for a 'Development Round' of the WTO, focusing on the need to level the playing field of global trade at the same time in incorporating social safety nets into the WTO system.

Doha, said the Bank, should focus on the "removal of policies that constrain developing countries exports of agricultural products, labour-intensive manufactures, such as clothing, and the temporary movement of service supplies" (World Bank, 2001a). It also called for a "rebalancing" of the Trade-Related Intellectual Property Rights (TRIPs) agreement to allow low-income countries to purchase essential drugs and products at more competitive prices (World Bank, 2001b).

There is no mention of the issue of TRIPs and medicines as called for by developing countries in the Doha Draft, oblivious to the public outcry that the whole agreement is skewed in favour of patent-rights holders, particularly in view of the controversy generated by the recent trial in South Africa on the right of the state to import generic drugs to treat HIV and AIDS against patent rights.

It must be noted that while the Bank is keen to be seen being on the side of developing countries in these areas, they neglect to oppose some of the other damaging aspects of WTO obligations, such as clauses on the liberalisation of foreign direct investment and competition policy which would conflict with the Bank's own private sector initiatives in developing countries.

Neither have they commented on the push for more tariff reductions and elimination of quantitative restrictions on exports to developing countries in spite of the disastrous consequences on local industries. Protection of domestic industries would seem contrary to the Bank's promotion of increased foreign trade and investment.

Credible evidence: holding developing countries hostage through the law

One of the reasons the WTO is keen on engaging with the World Bank and the IMF is their perceived authority on issues pertaining to financial and monetary policies (the IMF) and development (World Bank). In getting the Bank and Fund to streamline policies with those of the WTO would not only ensure that macroeconomic reform advocated by the IFIs would bring countries in line with WTO provisions but also to ensure that countries have little room to manoeuvre around WTO obligations.

Rowden estimates that in the last five years (1997 - 2001), 36 countries have agreed to comply with requirements of bringing their trade regime in line with WTO provisions or to accelerate the process of WTO implementation in official IMF documents, mostly in formal IMF Letters of Intent and Poverty Reduction Strategy Papers (PRSPs). Conformity with WTO rules was an actual condition of IMF lending to Azerbaijan in 1997 (Rowden, 2001).

In this respect, developing countries are then caught in two: the structural adjustment loan document and the WTO treaty, both of which carry serious penalties for non-compliance. Jordan notes that while the Bank and Fund may cut off lending if loan conditionalities are not met, breach of WTO obligations can lead developing countries down a costly road of adjudication under the WTO's strict dispute settlement mechanism (Jordan, 1999).

It is within the WTO's adjudication process that the role of the World Bank and IMF become important to maintaining the WTO's neoliberal agenda. Bank and Fund watchdogs should play close attention to WTO dispute cases, particularly in cases where the Bank and Fund are called upon as expert witnesses.

In 1999, the United States challenged an import regulation by India imposing quantitative restrictions on imports of agricultural, textile and industrial products, arguing that India had breached its obligations under Articles XI:1 and XVIII: 11 of the General Agreement on Tariffs and Trade 1994. India invoked a Balance of Payments justification under Article XVIII:B of the same agreement saying that the restrictions were necessary to maintain its balance of payments. The IMF was called in and submitted to the WTO dispute settlement panel that the import restrictions were unnecessary to achieve India's macroeconomic goals. The Panel ruled in favour of the US.

A WTO appellate panel upheld the Panel decision, stating that Article XV:2 of GATT 1994 provides that where the IMF is called in to give evidence, "the contracting parties must accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balance of payments". The appellate panel refused to say that this meant the IMF's assessment of a country's macroeconomic situation should be accepted as an objective statement of fact, but it is likely that the IMF's evidence would take precedence over other expert assessments presented at any dispute hearing.

Furthermore, the IMF regularly participates in consultations of the WTO's Committee on Balance-of-Payments Restrictions to ensure that countries' attempts at achieving macroeconomic stability do not conflict with WTO tariff reduction exercises. This

could effectively mean the IMF pursuing tariff-reduction strategies and deregulation of industries for the sake of compliance with WTO provisions rather than a result of independent assessment of a country's macroeconomic needs.

Therein lies the danger of greater coherence in the policy formulations of the Bank, Fund and the WTO, especially given the fact that these institutions are substantially controlled by a handful of industrialised countries. With these three institutions subscribing to a common agenda of trade liberalisation, deregulation and an intellectual property rights regime biased to corporate interests, there is very little room for developing countries to implement policies which suit their own domestic needs and to protect their domestic economies and industries from the onslaught of multinational investors. There does not seem to be an alternative forum in which developing countries are able to seek assistance and support.

Joining hands: the role of watchdogs

With the increasing concentration of economic policymaking power in the hands of a few and the increasing cooperation between the Bretton Woods institutions and the WTO, what then can civil society groups do ?

The most important step is for both WTO watchers and Bank and Fund monitors to join hands and increase cooperation in the area of trade. The interrelationship between Bank/Fund policies and the WTO agenda is clear and it is obvious that all three institutions and the countries which control them have substantial benefits to gain from their increased coherence. Watchdogs for all three institutions should familiarise themselves with the issues which overlap and take active interest in the institutions other than the one they are monitoring.

Raj Patel of the Southern and Eastern African Trade Information and Negotiations Initiative is a firm believer in cross-institutional monitoring. He also sees the intensified focus on trade as an opportunity for activists to join forces rather than be engrossed in their own institution of focus. Groups such as the Bank Information Centre and RESULTS have started making headway in this direction by gathering data and compiling briefings on Bank-Fund-WTO synthesis and hopefully more groups will follow suit.

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