Better late than never for WTO

THE "Bali Package" – which would lower some trade barriers and reduce the time goods take to clear customs – is a modest but significant achievement for the World Trade Organisation (WTO). It is modest compared to the overarching goals of global free trade embodied by the organisation since the Doha Round of talks in 2001. But the package is important for both concrete and symbolic reasons. In hard terms, it will add about US$1 trillion (S$1.2 trillion) a year to the global economy and create 21 million jobs, 18 million of them in developing countries. Symbolically, it is evidence that, as WTO director-general Roberto Azevedo exclaimed, the organisation has delivered for the first time in its history. His declaration acknowledges how difficult it has been to move the WTO forward since its inception in 1995. It is cause for celebration that members managed to throw off the inertia that had become synonymous with its existence.

This portends well for globalisation because the WTO is the only global international organisation that deals with the rules of trade between nations. Its goal is to help producers of goods and services, exporters and importers conduct their business. Given the centrality of trade to the economic life of nations, it would have seemed obvious that countries would have a stake in making it one of the most successful institutions in the world. But the paralysis created by short-term national interests – very often the vested interests of particular economic lobbies such as farmers that could hold national policy-making to ransom – was turning the WTO into an irrelevance. The Bali Package is a welcome reminder that countries can be persuaded to look beyond narrow gains at an international economic order that will benefit everyone. This includes the developing world, which needs concessions necessary for it to enter that competitive order.

Hobbled by differences, the WTO was being superseded by regional trade agreements which were necessary and more manageable but which posed the danger of carving the world into separate and potentially combative trading blocs. Post-Bali, therefore, it is essential for the WTO to use the momentum it has gained to inject urgency into the deadlocked Doha Round.

These are propitious times for optimism. The economic rise of Asia is creating mega-markets that are breathing new life into globalisation. Rising incomes and better education are building a middle-class core whose economic interests will not only sustain new products and services but will also stabilise international politics. Protectionist and mercantilist theories stand thoroughly discredited. But turning these conceptual truths into workable policies is a job that falls squarely on the WTO.

On Dec 7, the WTO concluded an 11th-hour deal in Bali. But do developing countries really gain from being members? While some WTO rules are increasingly being seen as unfair, critics in India could be underestimating the possible benefits.

What's next for the WTO?

By LORI WALLACH and BEN BEACHY

MR ROBERTO Azevedo, the new World Trade Organisation (WTO) head, has earned praise for avoiding the implosion that has characterised many past WTO meetings.

However, the real question is what lesson the new director-general should draw from his intense first few months of WTO leadership.

The Bali deal indicates that, while attempts to expand the scope and jurisdiction of the WTO do not enjoy support from most member countries, Mr Azevedo may find more support in heeding longstanding calls to alter existing WTO rules.

If Mr Azevedo is to take this lesson to heart and chart a new direction for the world's most powerful commerce organisation, he can take a cue from his home country. Brazil has proven successful in challenging old globalisation agendas and crafting its own trade policy.

Brazil stands out because it was one of the few countries that wisely refused to subject its financial services sector to the WTO's broad deregulation requirements. Unlike those countries that did, Brazil weathered the 2007/2008 global financial crisis with limited impact.

Another example of Brazil's savvy is its refusal to accept an obscure-sounding provision that is usually buried in the trade and investment agreements and pushed onto other countries by the United States and the European Union.

Known as "investor-state" dispute resolution (ISDR), this mechanism empowers foreign corporations to bypass the domestic legal systems of the countries in which they operate.

Instead, it allows them to drag sovereign host governments before extrajudicial tribunals with a stunning demand – compensate corporations for health or environmental policies (or other government actions) that the investors find inconvenient.

These tribunals are comprised of three private sector attorneys, unaccountable to any electorate. And yet, they are empowered to decide whether an important public-interest policy should be deemed a violation of expansive, but vaguely-worded foreign investor privileges.

For example, a Peruvian anti-toxics policy is now being attacked by a US corporation, as is Canada's medicine patent policy. And US tobacco behemoth Philip Morris has launched cases against progressive anti-smoking laws in Uruguay and Australia after failing to undermine the health laws in domestic courts.

To outsiders, this may sound like a conspiracy theory. If only. In the name of investment promotion, US trade negotiators over the past two decades have quietly inserted these far-reaching provisions into a panoply of "free trade" agreements (FTAs) signed with 17 mainly developing countries, from Mexico and Chile to Oman and Morocco.

European countries have inked nearly 1,000 bilateral investment treaties (BITs) that contain the same mechanism with developing countries in Latin America, Africa and Asia.

As a result, US and EU oil, pharmaceutical and other corporations are now launching an unprecedented wave of these investor-state cases. The UN reports that the cumulative number of investor-state cases has jumped tenfold since 2000.

Corporations are using this tool to go up against consumer safeguards, environmental laws, financial regulations and other policies that they claim inhibit their "expected future profits". These tribunals have already ordered governments to pay billions to foreign corporations, while billions more in claims remain pending.

Given that, why would any country want to sign on to such a one-sided system? Most likely, it is a case of deceptive advertising. Sweeping investor privileges, it was reasoned, were required to attract a steady flow of investment into developing countries. Investor-state clauses were originally presented as promoting investments. In reality, they have turned into a Trojan horse.

If the agreements had worked as advertised, Brazil – which has steadfastly refused to accede to these tribunals – should be hurting for investment after rebuffing BITs and US FTAs that enshrine the ISDR system. And Peru, having ratified nearly two-dozen investment treaties and signed onto an ISDR-embodying US FTA with the United States, should be a darling of foreign investors.

The reality is the opposite. The UN reports that last year, Brazil was the world's fourth most popular destination for foreign investment, only outdone by the United States, Hong Kong and China.

While Brazil easily clinched Latin America's top spot as a foreign investment magnet, Peru ranked as one of the region's lowest foreign investment recipients. Indeed, study after study has found zero correlation between a country's submission of its public policies to the whims of investor-state tribunals and its ability to attract foreign investment.

No wonder then that South Africa is in the process of terminating its BITs with investor-state enforcement, as is Ecuador. Countries such as Bolivia and Venezuela have withdrawn from the World Bank forum, where most investor-state cases are tried

The opposition to these dubious tribunals has also reached the Global North. After a multi-year review under the past conservative government, Australia concluded that the investor-state regime was not in its national interest. It refuses to be subjected to the US-proposed expansion of the investor-state system through the Trans-Pacific Partnership, a sweeping FTA currently under negotiation.

Given Brazil's proven success in refusing such costly schemes and engaging in the global economy on more pragmatic terms, will Mr Azevedo take a cue from his home country, learn from the recent backpedalling in the Bali deal and bring a new perspective to the WTO?

The odds may be long, but the world can only hope so.

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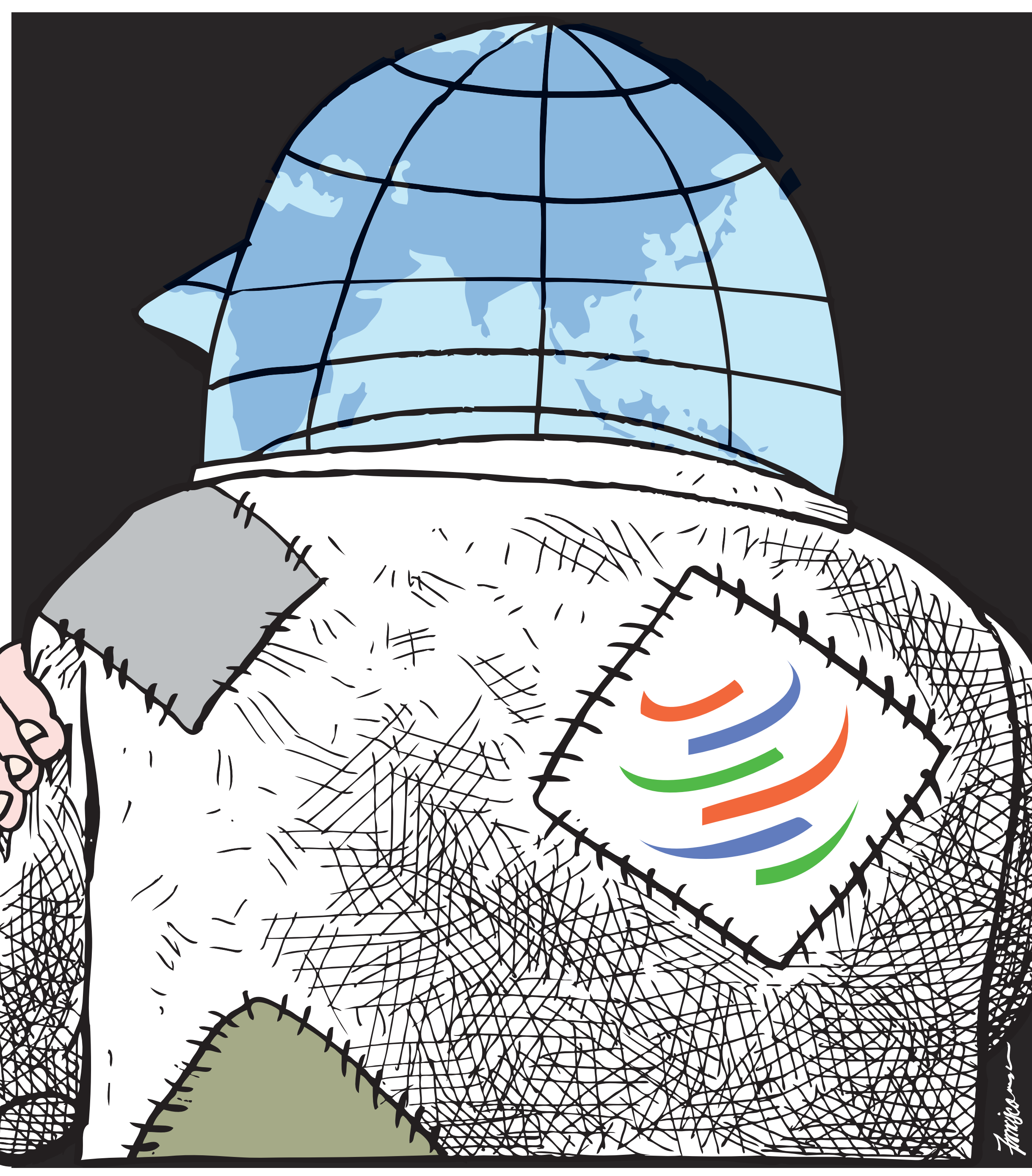

World trade body's value to India is beyond question

By NAYAN CHANDA
FOR THE STRAITS TIMES

IN THE aftermath of the terrorist attacks on Sept 11, 2001, the World Trade Organisation (WTO) ministers met in Doha to launch a new trade agenda.

There was a great sense of urgency. The world body wanted to adopt policies to help curb the anger by reducing the enormous gap between the rich and the developing world. In the dozen years since, the urgency has diminished, but the rich-poor gap has not.

The Doha agenda is dead. Will the WTO as a whole suffer the same fate? If so, it would certainly not be in the interests of India.

The WTO's meeting in Bali earlier this month focused on reform to reduce transaction costs and remove a plethora of non-tariff barriers costing hundreds of millions of dollars.

But this very limited trade facilitation agenda ran into headwinds from Indian and developing country bureaucrats and vested interests.

For its own self-interest as a low export performer, India should support such agreements. It should also find alternative ways of implementing social policies that do not involve insisting on unlimited agricultural subsidies, something which runs up against a WTO cap.

India's Food Security Act, which entitles 700 million people to inexpensive food, requires a highly subsidised delivery of food grains that would be in breach of the WTO's limit of 10 per cent of the total value. As a compromise, India has been given a four-year waiver under a "peace clause".

The WTO has also agreed to the Indian demand to seek a permanent solution before the 11th ministerial meeting in 2017. This should have been a reasonable deal to accept, but political demagogy has complicated matters. With just six months to go before national elections, ambitious politicians who warned against accepting the WTO peace clause are even denouncing the deal that the WTO offered India.

There is no dearth of politicians who would have rejoiced if the Bali talks had collapsed. But it is important to remember that without the four-year waiver which India obtained, the country would have been in violation of existing rules and thus subject to sanctions.

When the Indian Parliament adopted the Food Security Act, there were voices that questioned the wisdom of such a gigantic food subsidy plan.

In a country which is already self-sufficient in food and a top food exporter, the problem is not about the lack of food.

Rather, it concerns the efficacy of funnelling 62 million tonnes of grain through a corruption-ridden public distribution system. Subsidised government procurement has already created economic distortions in the agricultural sector, encouraging farmers to grow grain rather than cash crops. The result has been massive wastage in overflowing warehouses.

The current system of giving subsidies in the form of fertilisers and electricity has also proven to be inefficient, and has burdened the country with an unsustainable deficit. Yet, there are alternative ways to end hunger.

The Unique Identification Aadhaar card that reaches more than 430 million Indians can help here. Linked to bank accounts, it can facilitate direct cash transfers to the needy. It would not only be effective, but also fully WTO compliant, falling into the "green box" of permitted subsidies.

Even if one discounts the International Chamber of Commerce's claim that the Bali deal will add US$960 billion (S$1.2 trillion) to the world economy and create 18 million new jobs in developing countries, the value of the WTO, even in its weakened state, is beyond question.

India would not be where it is today without the benefits of the rule-based trading established by the WTO.

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