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International and national political economy, economics and development

This review of the multilateral trading system, the culmination of two and a half years of study undertaken by the United Nations Development Programme (UNDP) and its co-sponsors, was published in January 2003, eight months before that system lapsed into paralysis. The report, which argues that trade liberalization must be utilized as a means of fostering human development, reads as a manifesto for the WTO Ministerial Conference which took place in Cancún, Mexico, last September. A week prior to the Cancún Conference, EU trade negotiator Pascal Lamy wrote that the WTO 'helps us move from a Hobbesian world of lawlessness, into a more Kantian world-perhaps not exactly of perpetual peace, but at least one where trade relations are subject to the rule of law'.

Tragically, most of the recommendations made by lead author and coordinator, Kamal Malhotra were not entertained at those talks. The result of the multilateral system's near demise is a Hobbesian world of bilateral trade agreements in which the US and the EU, in particular, are able to wring far better terms from those agreements than was the case under a multilateral regime. This report documents the issues that have led to so much mutual mistrust, incomprehension and ultimately despair, among trade negotiators since the Uruguay Round of talks from 1986 to 1993. These include tariffs, commodities, textiles, intellectual property, services and agriculture, as well as the so-called 'Singapore issues' of investment, competition, transparency in government procurement and trade facilitation.

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The book can be read as a series of easily accessible chapters, even for the non-initiated, with well-demarcated chapters containing figures, tables and boxes that illustrate in a graphic way (sometimes literally!) the glaring imbalances that bedevil the global trading system. The review takes the examples of Vietnam and Haiti to illustrate the differing approaches to, and effects of, trade liberalization. Vietnam's gradual approach to economic reform, which has encompassed state trading, import monopolies, as well as tariffs on agricultural and industrial imports, has led to GDP growth of over 8 per cent per annum since the mid-1980s, greater integration with the world economy and a sharp decline in overall poverty levels. In contrast, Haiti, a country where rural households spend two-thirds of their income on food, has since 1994 embarked on a policy of slashing import tariffs to 15 per cent and removed all quantitative restrictions. The result has been a disaster for the Caribbean island with all its social indicators deteriorating.

The differing approaches to development undertaken by the two countries highlight also the dangers of trying to apply the multilateral system's 'one-size-fits-all' approach to countries at different stages of development. For example, the chapter on what the review calls 'clearly the most controversial of WTO agreements', the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPs), highlights how imposing a regime applicable to all WTO members, may benefit rights holders but can have catastrophic consequences for users, particularly in the areas of food security and access to much-needed pharmaceutical drugs. The book is at its strongest when outlining measures that should be taken to ameliorate such asymmetric agreements for developing countries. However, the authors also warn that none of the reforms proposed within the book will bring the desired results unless developing countries gain the capacity to use the reforms effectively in achieving their development goals. Without this strengthened capacity the multilateral system is doomed to implode upon itself.

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While acknowledging that trade can play a positive role in poverty reduction, the report argues that the expansion of markets, facilitation of greater competition and transfer of technology do not, of themselves, lead to poverty reduction. Mention is made of the positive role that foreign direct investment has played in promoting human development in Malaysia. However, the report also highlights how the agricultural sector in the Philippines has been decimated by cheaper subsidized imports since the Uruguay Round agreement. Mexican corn farmers have suffered a similar calamity: the small subsidies they once received have been slashed since the signing of the North American Free Trade Agreement (NAFTA) in 1993, while corn grown by heavily subsidized farmers in the US has been allowed to flood the Mexican market. The report says that cheaper imported corn should mean cheaper food but in reality prices have stayed high due to a cartel of companies holding a monopoly on sales. By way of contrast, the review examines the 2002 Farm Bill in the US which increased agricultural subsidies by almost 80 per cent, thus increasing the market power of transnational agribusinesses. This bill marks a continuation in the long history of the US government's refusal to confront the lack of competition in its agricultural markets.

Competition was one of those issues on which the multilateral system floundered in Cancún. At that conference Sam Mpasu, Malawi's Minister for Commerce and Industry replied to a question about the effects of trade liberalization by stating: 'We have opened our economy. That's why we are flat on our back!'. This report offers a prescription for resuscitation that, if ignored, could herald a Hobbesian world of lawlessness-not merely in the sphere of trade relations.