Debunking the Development Package

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The following promises are offered to Least Developed Countries (LDCs) and members of the Africa Group and ACP as a so-called "development package" in exchange for further demands of liberalization in key sectors of developing country economies. Below, we expose the hollowness of the offers. The Hong Kong development package is a guise for further impoverishment of developing economies, those hardest hit by liberalization. This package and the concessions expected from developing countries—in effect what is on the table for Hong Kong—should not be accepted. It is time to revisit the Doha mandate.

Cotton

USTR's Robert Portman promised the cotton countries up to $ 7 million as part of the "Cotton Improvement Initiative" last month. Both the US and the EU promise up to $1 billion for the four cotton countries.[1] Portman mentions aid packages through the Millennium Challenge Corporation and USAID which are "likely to come together" with "direct US aid" for the four cotton countries plus Senegal—though Chad is ineligible for the Millennium Challenge aid. It would amount to $200 million/per country, if actualized.

The US also says that the US Step Two export competition program has been sent to Congress for total elimination (up to Congress to decide) and that it has done everything administratively to eliminate export subsidies in cotton. However, the trade decision on cotton must be adopted in line with the overall agriculture package.

The US has made market access commitments on cotton. It will phase out its domestic support over time and eliminate it as per its October 10th proposal. This includes the marketing loan program—premier program used by cotton farmers in the US.

What We Say:

The USTR promises are deceptive and do not impact on structural changes necessary to keep small cotton producers in business. It is not up to USTR, but Congress to decide what to do about cotton export subsidies and the US congress has yet to repeal either the Step 2 program or change the existing appropriations for cotton subsidies.

The USTR is also making a mockery of international trade rules by not complying with the dispute panel ruling on cotton dumping in the case brought by Brazil. Rather than changing or eliminating programs that are causing dumping of US cotton onto world markets, the US is attempting to buy out cotton producing countries. Yet even the money is not guaranteed and if delivered, will come with conditionalities, including dictates on "good governance," the use of genetically modified varieties and other market interests of the US.[2]

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[1] For all statements referring to Robert Portman, see *Joint Press Conference On Trade Talks* , December 3, 2005

[2] See *The African Cotton Initiative and the Poverty of WTO Rules for Resolving the Crisis in Commodities*. By Steve Suppan, IATP, December 7, 2005

Moreover, the $200 million offered per country is an inadequate stop gap measure that fails to curtail US cotton dumping onto the world market at 48.4% below its cost of production--causing losses much greater than the cash that may (or may not) be given to a few countries.

The October 10th US proposal merely contemplates the removal of all tariffs and trade distorting support by 2022. And this will also depend on how the Farm Bill is revised in 2012 and 2017.[3] While its domestic support remains unchanged in the Doha Round, the US is asking for drastic tariff reductions from developing countries in agriculture and obstructing progress on special safeguards and the designation of special crops for protection for developing countries. In the long run at the WTO, it will be these provisions and the ability to challenge US and EU dumping that will protect farming economies of the South.

Preferences

The dominant discourse on preferences is that they are being phased out (eroded) anyway because of liberalization. They are not good for developing countries because they create dependency on a single or a few commodities. The way to benefit from trade is by competing in a liberalized economy and improving supply side capacity to diversify. At the same time, one US claim against providing duty free/quota free access for LDCs is that it will lead to preference erosion i.e. impact agreements such as the Africa Growth and Opportunity Act (see below on duty free and quota free).

Yet, the major economic powers do not state what they plan on doing to help preference receiving countries (dependent on the EU and the US) deal with preference erosion or termination.

What we say:

The EU and the US, as well as international financial institutions, must take responsibility for how these countries became dependent on single and/or few commodities in the first place. Colonial tariff structures, structural adjustment conditionalities, dismantling of commodity agreements that used to stabilize prices, combined with tariff peaks and escalations and non-tariff barriers and rules of origin problems have contributed and continue to keep preference receiving economies dependent on the EU and the US. Ending preferences without providing non-conditional financial support for diversifying their economies would be very harmful to some of the poorest and vulnerable developing countries in the WTO. In fact, predictions of the results of the Doha Round suggest that these economies will be worse off after Doha—this is the reverse of what should happen in a development round.

Solution at the WTO depends on developed counties to 1) allow policy making space, including border protection through tariffs for preference dependent countries for their agriculture, industrial and services sectors until they can adequately diversify as to their needs (i.e. honor requests of LDCs and ACP countries to protect sensitive products, allow for special products in the AoA and a price-triggered emergency safeguard mechanism) 2) reduce their tariff escalation and peaks 3) simplify rules of origin. Outside of the WTO, the US and the EU must 1) provide aid for transition and diversification without conditionalities, and must do so before the Doha Round negotiations are completed and 2) support commodity agreements that give fair prices to commodity producers and manage global overproduction.

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[3] See *Briefing Paper : The U.S. WTO Agriculture Proposal of October 10, 2005.* By Sophia Murphy, IATP

Aid for Trade

Portman stated on December 3rd that G7 ministers "designated a number of 4 billion annually" for aid for trade and are prioritizing infrastructure development in Africa; and that trade ministers are helping the development agenda by opening markets and reducing trade barriers.

Language in the draft ministerial declaration for Hong Kong states: "Aid for trade cannot be a substitute for the development benefits….to the DDA, particularly on market access" but that it is a complement to the Doha agenda. It suggests aid on "concessional terms where appropriate." And even this decision will be taken at or after a meeting in July 2006 with consultations with the IMF, WB, regional banks and other relevant international organizations "to secure additional funds."

What we say:

Aid for trade is "more of the same" promises about aid from an organization that has little control in securing needed funds. It is not the WTO, but Northern governments and a much broader international development community and development banks that will enable any delivery of aid. Yet by disingenuously placing "aid for trade" in a WTO package, developed countries are asking for further concessions in market access of developing countries. Furthermore, any language on concessional loans is inappropriate. It creates a situation of "indebtedness for trade" rather than financial support that boosts supply-side capacity.

Citing big dollar figures as promises is window dressing. We must look at how and when this money is being issued, about sequencing and the autonomy of a country to decide where trade lies in its development objectives. Money should not be used for pushing a certain model, but has to be about capacity-building for countries to develop and actualize their own priorities for economic development. Trade may only be one and certainly not the first strategy for poverty reduction in many countries.

Duty Free/Quota Free Market Access for LDCs

The USTR is making noises about committing to duty free and quota free market access for LDCs. Yet, if the US agrees to it all, it will reserve the right to have special safeguard mechanisms in case of import surges. The US is worried about textile imports from Bangladesh. Portman also suggests that they would rather do this autonomously while being able to commit at the WTO to some degree (thus making it unclear as to what will actually be committed at the WTO). In responding to media on December 3rd about exemptions to duty free quota free access in areas of textiles, apparel, footwear, leather goods etc., Portman stated that they: "haven't made the decisions on every specific product and every specific preference program."

What we say:

The US is not serious about duty free and quota free access to LDCs, or about promoting development through the Doha round. For instance, duty free access for some key products

such as textiles will not be accepted by the US Congress.[4] Moreover, the US has not been forthcoming on forms of safeguard measures for developing countries in the broader negotiations on agriculture; whereas, it demands this as a prerequisite for allowing market access to even the LDCs: "a trade diplomat speaking on the condition of anonymity said the United States appears to have accepted the principle of universal product coverage, on the condition that it maintain the right to impose safeguard measures on surging imports in sensitive product sectors."[5] This clearly shows US hypocrisy in the negotiations.

Duty free/quota free market access to LDCS is welcome, but once again hype. LDCs still face major supply side constraints and thus many cannot take advantage of this market access. Those that can are still plagued by rules of origin problems and other conditionalities, as well as SPS (sanitary and phyto-sanitary) and TBT (technical barriers to trade) measures and other forms of non-tariff barriers. Paragraph 41 in the ministerial draft simply says that members "shall take additional measures" to deal with simplified and transparent rules of origin.

The whole Doha Round is a development agenda. The LDC Package must be seen in conjunction with the gains that come from liberalization and market access from this Round

What we say:

This argument is false on three counts. First, it is false economically because the academic literature on benefits of trade liberalization for all developing countries is inconclusive at best and points to economic losses for much of Sub-Saharan Africa, the Caribbean and Latin America at worst.[6] The current Computable general equilibrium (CGE) models that have in the past churned out big number benefits are widely known to be grossly oversimplified. They do not paint a disaggregated picture of winners and losers amongst developing countries and amongst economic sectors, much less about constituencies within those countries. Thus it is false to say that all developing countries gain from liberalization, much less that the Doha Round is a development agenda.

Second, it is false when taking into account the politics of global trade. Neither the US nor the European Union will create any changes in their agriculture regime that impact global trading rules substantively through the WTO. Nor will they allow for genuine access to key products of interest such as textiles and other important industrial sectors to developing countries. And these are the key sources of gains predicted by the above CGE models for the Doha Round. Neither the Congress nor the EU member states will allow them to do so.

Third, it is false when taking into account the existing politics of trade negotiations. As we have seen from above, the "development package" for Hong Kong is hollow and will not necessarily result in increasing supply-side capacity for those in need. It may even hurt their trading capacity because of the liberalization envisaged. Yet the US and the EU are

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[4] 24 Congress leaders recently wrote to President George Bush expressing their opposition to duty free access to LDCs ("House Members Oppose EU Proposal on Duty Free Access of LDCs" International Trade Daily, December 9, 2005)

[5] Quote from WTO Reporter, Dec. 6

[6] See *The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections*. By Frank Ackerman, GDAE Working Paper, 2005

demanding that developing countries make drastic relative cuts in industrial negotiations (NAMA), in Agriculture and through newer commitments in Services.

Meanwhile, the US has shown little sympathy for developing country provisions in agriculture; neither the US or the EU are forthcoming in developing country provisions in NAMA; they are doing nothing to curb their tariff peaks and escalations (thus restricting trade in value-added products for developing countries); and they fail to address their agriculture dumping on world markets since their proposed cuts are cosmetic.

Conclusion

The Doha Round has thus far shown itself to be another tariff cutting round for developing countries with nothing delivered on real provisions that protect developing country domestic agriculture and industries and help them thrive. This is in spite of the fact that the EU and US trade policies distort world markets and drive out existing producers in developing countries. Yet in Hong Kong, the US and the EU will seek to get more commitments in Services and NAMA. This is no time to make a deal in Hong Kong. It is time to stop and revisit the Doha Mandate.