

# Deadlock at Cancun: A New Beginning

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The fifth ministerial conference of the World Trade Organization (WTO) was abandoned without issuing any draft declaration, dashing the hopes raised by the Doha Development Agenda. Since its establishment on 1 January 1995, WTO, the most powerful multilateral trade regime, has faced many ups and downs. Therefore, failure of the Cancun talks should not be seen as the end of the WTO but as a new beginning where the alliance of developing countries, under the leadership of India, have emerged as a powerful player in multilateral trade negotiations.

## Key Concerns at Cancun and India

The Doha Development Agenda had set out a bold programme by putting development at the center of multilateral trade negotiations. By missing deadlines on building agreement on key issues, the Cancun round was bound to raise the same basic issues concerning developing countries. The following are some key issues on which India had deep concerns at Cancun.

- **Agriculture**

After the Doha round, Agricultural Market Access emerged as the single biggest issue in the talks. The negotiations on agriculture revolved around: (1) Increased market access to agricultural exports; and (2) the elimination of domestic support and agricultural support subsidies. The developed countries led by EU and the US wanted to push for tariff reduction in the agricultural sector, which was unacceptable to developing countries like India.

The main reasons are: (1) Agriculture accounts for about 27 per cent of the GDP and export earnings of the developing world on which 70 per cent of

its population. (2) On the other hand, agricultural markets of the developed world are among the most heavily protected. In the member countries of the Organization for Economic Cooperation and Development (OECD), the average bound tariff on agricultural products is up to sixty percent, and average agricultural support expenditure per year is \$314 billion. With higher subsidies in the developed countries for agricultural products, tariff reduction would lead to unfair competition for the poorer producers in the developing and underdeveloped markets. Expressing its domestic concerns, India took a rigid stand on the issue arguing that unless the phased elimination of domestic support and export subsidies in developed countries is initiated, India will not support any reduction of farm tariff in developing countries.

- **TRIPs/Public Health**

The agreement on Trade-Related Intellectual Property Rights (TRIPs) has been contentious since its inclusion in the WTO agenda. This issue is critical for the developing world because they have to meet the health needs of millions of people suffering from diseases like HIV/AIDS, malaria, and TB. Most of the patents for remedial drugs are with the US pharmaceutical and biotechnology companies. Besides ensuring health security to its citizens, the developing and underdeveloped countries, especially from Africa, have concerns about their traditional rights over natural resources and traditional knowledge against biopiracy. Many pharmaceutical and biotechnological products are patented by multinational firms without sharing its benefits with the indigenous communities. The same problem is being faced with genetically modified crops. Developing countries, including India, are of the opinion that (1) the TRIPs agreements does not

and should not prevent members from taking measures to protect public health and (2) by bringing traditional knowledge under the purview of the TRIPs system of intellectual rights, some degree of protection from biopiracy should be provided to the indigenous communities.

- **Non Agricultural Market Access (NAMA)**

The proposal on tariff reduction for all products, without exclusions, came to the forefront after the Doha round of negotiations. In the non-agricultural market access (NAMA) area, some sectors in industrial products are contested by developing countries. This includes electronic and electrical goods, fish products, textiles and automobile industry. The US is in favour of a total abolition of all import tariffs on industrial goods. This is one issue on which there are serious differences between the developing countries; those with a higher level of industrialization have positive interests because some sectors are globally competitive. For instance, India has an interest in textiles and clothing while China is interested in electronic and electrical goods. That is why, while going to Cancun, India did not take a hard line position on NAMA. The less developed countries fear that the removal of quantitative restrictions would ruin their domestic industry, especially their small scale sector. The fresh proposal made by the US, EU and Canada call for cuts in customs duties instead of

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average reductions in import tariffs. This proposal pushed countries like India to the wall. Therefore the developing countries argue that, given their stage of development, they should not be required to give up their protection for

local businesses.

- **Singapore Issues**

The issues raised by the EU in the Singapore round of talks in 1996 are termed the Singapore issues. Developed countries want WTO to expand its

negotiation framework according to the proposal, which comprises of four new issues (a) the relationship between trade and investment rules, (b) the relationship between trade, competition law and policy, generally called implementation issues, (c) transparency in government procurement, and (d) trade facilitation. Negotiations on the Singapore issues are being opposed by most developing and least-developed countries for three reasons. First, developing countries have already lost ground in initial negotiations because of the imposition of the WTO regime. Expanding the WTO framework would be beyond their capacities. Second, this proposal would expand the scope of the WTO into areas that are not clearly trade related. For instance, most of the investment policy rules fall under the purview of United Nations Conference on Trade and Development (UNCTAD). Lastly, implementation issues and transparency in government procurement would restrict their ability to regulate competition and investments which will lead to adverse developmental impact. Despite tremendous pressure from EU and some domestic sectors, India took a firm position and prevented the Singapore issues from being brought into the Doha and Cancun round of negotiations. The main reason for this position was the binding character of WTO on implementation and government procurement issues, which would lead to loss of independence in economic policy making.

- **Fallout of the Cancun Draft Agenda**

So what exactly happened in Cancun that prevented a consensus from being built? The alliance of developing countries (G-22), especially the top five developing countries - India, China, Brazil, Argentina and South Africa - was successful in bringing agriculture to the heart of negotiations. They decided to stand firm on demanding a phased elimination of subsidies to the discomfort of the European Union and United States, that were desperately trying to break the group to push their pro-developed agenda on agriculture. When all attempts to break the alliance failed, EU realized that pressure was bound to increase on it for the elimination of subsidies for domestic farm products. To avoid this pressure, EU brought the Singapore issues into the picture. Unfortunately, the US could not provide the leadership it had provided in Doha round of

negotiations.

The draft Cancun Ministerial Text, prepared by the chairman of the WTO ministerial meeting and

Mexican Foreign Minister, Louis Ernesto Derbez, was unacceptable to the developing countries for the following reasons:

- The proposed draft declaration was considered to be in favour of industrialized nations as it called for immediate talks on transparency in government procurement and trade facilitation. It also calls for negotiations on the controversial issue of investment once an agreement is reached on the modalities of agricultural trade liberalization. India, Malaysia, China and 26 other developing countries are totally opposed to starting negotiations on the four Singapore issues saying that the clarification process should continue, as the parameters of the negotiations are not clear.
- A major issue favoured by the European Union and Japan, that is launching negotiations on rules governing foreign investment was also included in the draft that was again rejected by the developing countries.
- Even though the draft provides for phasing out farm subsidies in rich countries, the developing countries will have to commit themselves to opening up their own heavily protected agricultural markets, a central demand of the US. The draft perhaps would have affected India the most on agriculture as it did not provide for addressing the livelihood concerns of the 650 million poor farmers in India.

Because of these contentions, most ministers criticized the text by restating their established positions. After nearly four days of hectic consultations among 148 trade ministers and informal discussions by Director-General of the WTO Dr. Supachai Panitchpakdi, the conference could not reach any consensus. A ministerial statement, issued at the end of the conference, concludes that despite considerable movement in consultation, members remained entrenched, particularly on the Singapore issues. It further says that the talks ended without any declaration as more work was needed to be done in some key areas. Thus, the standoff on agricultural and Singapore issues led to the abandonment of the

fifth ministerial conference of the WTO without deciding a future course of action.

### Failure of the Conference: A New Beginning

There is no doubt that the failure of the conference is a setback for multilateral trade negotiations and liberalization. But, instead of perceiving it as failure, it should be seen as a new beginning for the following reasons:

- Developing countries entered the talks with clearer views on key issues for the first time. They were successful in forging a formidable alliance on the contentious Singapore and agriculture issues. The accession of Cambodia and Nepal as the first least developed countries in the WTO since its establishment is also a positive development. It is also notable that the African countries for the first time asserted themselves by walking out in protest on the issue of differential treatment and discussing the Singapore issues.
- All the attempts made by the EU to divide the alliance of developing countries were futile. In fact, the centrality of agricultural issues led to a collision of interest between the US and the EU because the US is interested in tariff reduction, while the EU is not ready to curtail its 'trade distorting' subsidies. The EU and US's shaky alliance on agricultural issues shows that they are aware that in the coming days they will have to accept the demand for reducing export oriented subsidies.
- India should see this as a victory for its position because it was successful in shifting the balance of power in favour of the developing countries. This was possible because of India's initiative in establishing a grand alliance of

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southern countries from Southeast Asia to Latin America. India emerged as the undisputed leader of the developing countries in multilateral forums.

- Developing countries accepted the failure of talks rather than surrendering to the declaration. This failure has created a hope that future talks will definitely accommodate their concerns.

### Conclusion

The failure of the Cancun talks should not be seen as the end of the WTO. According to classical economic theory, free trade is beneficial for everyone as it facilitates consumption beyond ones' production capabilities. No one seems to be against this. But in the real world, the historical legacy of inequalities and the consequential North-South divide does not allow a level playing field in global multilateral trade. The influence of corporate world on governments in shaping national policies makes it impossible. Unless critical issues within the WTO like TRIPS, TRIMS, reducing agricultural subsidies, technology transfer and so on are resolved, the developed world will continue to display undemocratic processes and double standards, and until developing countries adopt an effective reformist agenda at the domestic level, true global multilateral trade seems to be a distant dream. The new alliance that has emerged among the developing countries and conscious policies adopted by them at Cancun, with some homework, should be seen as a new beginning for future a multilateral trade regime.



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