

G 20 Leaders Succumb to Divide-and-Rule Tactics: The Story behind Washington's Triumph in Geneva

By Walden Bello and Aileen Kwa

The July Framework Document is a major triumph for the big trade superpowers, particularly the United States. As for the developing world, the situation is more complex, with most countries losing but some claiming that they have made gains. Among the few claiming to be in the win column are Brazil and India, which are acknowledged as the leaders of the G20 and two of the Five Interested Parties (FIPS) that played the leading role in drafting the agriculture text.

Attention needs to be paid to the dynamics of the July framework negotiations since they were a departure from traditional North-South trade negotiations and may set patterns for things to come.

GENERAL COUNCIL SUPPLANTS THE MINISTERIAL

Institutionally, among the innovations is that the General Council has now become de facto the supreme institution for WTO decision-making. What the July meeting came up with was effectively a ministerial declaration without a ministerial meeting. Two ministerial collapses--Seattle and Cancun--underlined to the WTO secretariat and the trade superpowers the unwieldiness of the ministerial as an arena for decision-making. It attracted NGOs and popular protests. It drew ministers, many of whom were not professional negotiators but political people determined to stand up for their country's interests. It brought the press in large numbers, thus making decision-making more transparent despite the wishes of negotiators accustomed to exclusive "green rooms."

Only some 40 trade ministers were present in Geneva for the July GC meeting, with many representatives of countries that played a key role at the Cancun ministerial, such as Kenya and Nigeria, absent. Obviously, with some 100 ministers of WTO member countries absent, a great many governments failed to fully grasp the significance of the meeting.

As for global civil society, which had played such a critical role in the outcome in Cancun, it was, for the most part, complacent, failing to appreciate how quickly the trading powers could rebound from their state of disarray. Very few NGOs had people in Geneva during the critical days in July.

DEALING WITH THE G20

Yet, this was not simply the old-style manipulative behavior of the trade superpowers and the WTO secretariat of the pre-Cancun period. The post-Cancun situation made this impossible. Cancun marked the emergence of the G20 as a key player in trade negotiations. As Ambassador Clodualdo Hugueny of Brazil put it during the debate at the World Social Forum in Mumbai last January, "The G20 broke the monopoly over trade negotiations by the EU and the US."

The US, however, failed to appreciate the change situation immediately. Coming out of the Cancun summit, US Trade Representative Robert Zoellick signalled a more aggressive, more unilateralist approach in trade negotiations when he said that the US would thereafter put its emphasis on concluding bilateral agreements with "can do" countries, implying that it would expend less effort in negotiations within the WTO. Washington also launched a frontal assault on the G20, successfully detaching El Salvador, Colombia, Peru, Costa Rica, and Guatemala from the body in a few weeks' time.

As for other developing countries, the G20 was a phenomenon that was received positively. Yet there were apprehensions among them that the most influential members of the G20 were agro-exporters like Brazil and that the main focus of the group was ending the EU and US' massive subsidy systems and bringing down tariff barriers to market access in these prosperous markets. Many countries, including Indonesia, were worried that the G20 governments were much less concerned with protecting developing country markets and smallholder agriculture from low-priced imports. Hence, the G33 continued to put forward proposals for protected "special products" and "special safeguard mechanisms."

Other countries felt the G20 focus on agriculture was inadequate as a strategy for defending developing country interests. This led to the formation of the G90 (composed of the Africa Group, ACP [African Caribbean and Pacific countries] and the Least Developed Countries) which united around the effort to block the "New Issues" of investment, government procurement, competition and trade facilitation from coming under the jurisdiction of the WTO.

Nevertheless, the G20's formation did electrify the ranks of developing countries, and many governments were inspired by Brazilian Foreign Minister Celso Amorim's promise in his Cancun speech that the aim of the G 20 was to "bring it [the world trading system] closer to the needs and aspirations of those who have been at its margins--indeed the vast majority--those who

have not had the chance to reap the fruit of their toils. It is high time to change this reality."

By the spring of 2004, however, Washington's dual strategy—pursuing bilateral agreements and destroying the G20--was running into trouble. The Free Trade Area of the Americas (FTAA) that it wanted failed to materialize in the ministerial summit in Miami in November 2003, and it also began to realize that bilateral agreements could complement but never substitute for a comprehensive, multilateral free trade framework to promote corporate trade interests. At the same time, the G20, despite the initial defections, held firm.

SHIFTING GEAR

To get the WTO restarted, Washington, working closely with Brussels, shifted gears. Instead of trying to destroy or undermine the G20, they moved to make its leaders, Brazil and India, a central part of the negotiations in agriculture, which was the key obstacle to any further moves at liberalization. Thus was formed in early April the informal grouping called the Five Interested Parties (FIPS), composed of the US, EU, Australia, Brazil, and India. It was in close consultation with this grouping that WTO Agriculture Committee Chairman Tim Groser produced the proposed agriculture text of the July Framework.

A shift in strategy was also evident towards other countries and formations. In the spring, USTR Zoellick began visiting a number of strategic developing countries. Instead of spurning invitations to the G90 meeting in Mauritius in mid-July, the EU and the US sent high level delegates, including Zoellick. There, confrontational language gave way to rhetorical efforts to get the developing countries not only to come to a compromise on agriculture but also to get talks moving on bringing down non-agricultural tariffs, starting talks on trade facilitation, and getting the negotiations on services underway. But perhaps the strongest message that the developing countries heard from the trade superpowers was this was the last chance to get the multilateral system moving—the implication being that they would be held responsible if the late July General Council talks did not get off the ground.

The US-EU drive to restart the WTO succeeded brilliantly. The US and the EU were the main beneficiaries of the agreement to cut non-agricultural tariffs, with the highest tariff rates being subjected to the deepest cuts; indeed, Zoellick went back to the US trumpeting the claim that the accord on NAMA (Non-agricultural Market Access) was a massive victory for US corporations since it was but the beginning of a process that would reduce industrial and manufacturing tariffs to zero. Both the EU and the US scored a victory by

getting the developing countries to agree to begin talks on trade facilitation, one of the “new issues” that the developing countries rejected in Cancun. But it was the US that scored the biggest gain, getting as it did, in addition to the foregoing, an expanded “Blue Box” in which to house a considerable portion of the subsidies to its farmers legislated under the US Farm Bill of 2002.

Part of Washington’s success stemmed from a wily negotiating strategy. For instance, to get its new expanded Blue Box, Washington distracted the developing countries attention by putting forward its demand that they reduce their *de minimis* domestic supports, that is, the allowable rate of subsidization of their production. Thrown on the defensive, these countries spent much energy justifying their subsidies, so that they were only too relieved when the US stepped back to compromise on the issue in return for their agreeing to the expansion of the Blue Box. Similarly, just before the General Council meeting, the EU suddenly brought in the category of “sensitive products” to protect some 20-40 per cent of its products from significant tariff cuts. Worried that the EU might put blocks to their demand for protecting products essential to their food security, the developing country negotiators acquiesced.

NEUTRALIZING BRAZIL AND INDIA

But the key to the victorious US strategy was bringing Brazil and India into the core group of the negotiations, then acceding to these countries’ core demands in order to detach them from the rest of the developing countries. India’s key concern was to avoid the so-called “Swiss Formula” for cutting tariffs that would require it to bring down its agricultural tariffs substantially, something on which it saw eye to eye with the European Union. According to one developing country negotiator, India’s main focus for the General Council was protecting its tariffs and it was not going to push hard on the issue of eliminating agricultural subsidies so as not to endanger the EU’s support for its position on tariffs. (The Indian government’s position on subsidies had been watered down by its informal alliance with the EU on the tariff issue after the Doha Ministerial before the EU abandoned the Indians to align themselves to a common position with the US in the period leading up to Cancun.) Both the EU and India were comfortable with a “Uruguay Round” approach to tariff cuts as they regarded their average tariff level as high enough for them to stomach another round of cuts. There were developing countries, however, with much lower tariff averages, for which even a Uruguay Round approach would be too drastic, for example Honduras, Sri Lanka, Indonesia.

On the other hand, removing agricultural subsidies was Brazil's concern, and here it got its way. The final text affirmed the phase-out of export subsidies as well as certain categories of export credits. The big winner with the phase-out of subsidies is said to be Brazil, with some estimates placing its gains as some \$10 billion. According to Amorim, the July decision marked the "beginning of the end" of export subsidies. Yet, the Brazilian "gains" are not secure unless locked in by the modalities of the negotiations. A specific end-date for the elimination of export subsidies will only be clinched in the next phase of discussions. Moreover, even when elimination has supposedly taken place, the EU has after all been known to replace export subsidies with indirect export subsidies by way of direct payments to farmers under the Green Box. This is also the intention of the current Common Agricultural Policy (CAP) reform. Furthermore, the framework leaves untouched the Green Box, which houses up to 70 per cent of US' total subsidies. Even the most optimistic analysts cannot say for certain that overall levels of support from the two agricultural giants will be brought down. In fact, it is predicted that subsidy levels will be maintained if not increased.

Nevertheless, for now, Brazilian agribusiness is very happy. Indeed, it was the pressure of Brazilian agribusiness that allegedly forced Celso Amorim to hang-on to the subsidy issue at the expense of a strong defense of developing country interests in other areas. Having gained nothing from failed negotiations on the FTAA and an EU-Mercosur trade pact, Brazilian agro-exporters were hungry for a successful WTO agreement that would enable them to hike their exports to the EU and US.

Among those that were left disadvantaged from India and Brazil placing their specific interests in command were:

- the majority of developing countries whose markets will continue to be flooded by dumped products from the US and EU. For the South as a whole, the opportunity to correct the distortions in agriculture trade legitimized in the Uruguay Round has been lost

- the African cotton-producing countries which failed to get negotiations on US cotton subsidies put on a fast-track independent of the agriculture negotiations, or even a commitment that all cotton subsidies will be eliminated;
- the Group of 33, which was left with nothing more than a vague commitment that their demand for "special products" and the "special safeguards mechanism" and in particular, the coverage of products under such a mechanism, would be a subject of negotiations;
- most developing countries, which had rightfully opposed the NAMA text (on market access of non-agricultural products) as a prescription

for their deindustrialization. Indeed, the US scored a big win on NAMA for the text is a detailed agenda for the radical liberalization that transnational corporations have long wanted. As the US National Association of Manufacturers saw it, "This is a huge accomplishment, and a big win for the WTO, the United States, and the world economy. The really big accomplishment for industrial negotiations is that all countries have accepted the principle of big tariff cuts and sectoral tariff elimination."

- most developing countries, which have now agreed to speed up their offers of services for liberalization.

DILEMMA

It was not that India and Brazil were not sensitive to the demands of other developing countries. In fact, they were given high marks for consulting the different developing country groupings. It was simply that by becoming central actors in the elaboration of the proposed framework, they had painted themselves into an impossible situation. And the more meeting their own interests began to diverge from a strategy of promoting the interests of the bulk of the developing countries, the more they trumpeted the claim that the July Framework Document was a victory for the South. It is testimony to the prestige of India and Brazil among other countries in the South that up till today, many developing countries do not realize how badly they lost in Geneva.

LESSONS LEARNED

The trade superpowers learned from the debacle in Cancun. The shift from a confrontational strategy to one of cooptation and subtle divide-and-rule was able to rip apart the superficial "Third World unity" that came out of Cancun. The centerpiece of the strategy was to bring in the leaders of the G20, India and Brazil, into the center of the negotiations and play to their specific interests. They fell for the trap. Moreover, having become central players as members of the exclusive Five Interested Parties, their ability to repudiate large parts of a text that they had been consulted on prior to its release to the General Council was limited. That would have invited the onus of being responsible for the "collapse" of the Doha Round and the multilateral trading system.

During and after Cancun, the G20 was seen in some circles as representing a major power shift in the global trading order. Some even saw the G20 as the dynamo for a reinvigorated "New International Economic Order." The reality is that the G20, and in particular Brazil and India, have been accommodated into the ranks of the key global trading powers, but it is increasingly

becoming clear that the price for this has been their diluting the strength of the negotiating position of the South.

More than ever, the South needs leadership, one that is willing to take risks for the whole and rejects the temptation to settle for small and maybe illusory gains for one's country. Many had expected the leaders of the G20 to fill this role. In the first decisive post-Cancun encounter, the latter have not lived up to expectations.

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