

Dizzy with spin

By Peter Clark
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Cancun - Day Minus 1 - Does the WTO membership really want this Round? The answer, even before Doha, was that some do and some do not and little has changed. On the eve of the conference we are scheduled to hear a steady stream of Ministers putting their own spin on the issues and differences. While Ministers try to salvage what they can, serious underlying differences have not disappeared, indeed, some have intensified **and** the foreign policy imperative that forged agreement at Doha is melting away.

There will be protests led by Mexican corn farmers who are concerned about the impact of U.S. corn imports. Some think this is a NAFTA issue but it is really due to the absence of discipline on U.S. domestic support – which could become the real focus of the discussions on agriculture. So the farmers are more than upset - they have come to the right place.

The protests are likely to be peaceful, we hope. The Mexican authorities are doing their best to ensure this and one must wait to see how many agitators got through the screening. The only barricades are around the Conference Centre. Most hotels have a mix of delegates and tourists. The relatively narrow Cancun strip will not need much of a demonstration to make it impassable. And it is hot. To quote Robin Williams as Adrian Cronauer in *Good Morning Vietnam* "It's hotter than a snake's belly in a wagon rut". And it is humid. One really must be dedicated to protest in these conditions with the inviting beaches so close by. But being stuck in crowds in the heat will not help patience or tempers

Ministers from the principal negotiating countries are trying to bridge gaps so they can declare success. But at the same time they are putting their own stories out in easy to understand form. USTR Zoellick and Agriculture Secretary Venneman are doing a media briefing this afternoon immediately following E.U. Commissioner Pascal Lamy. The E.U. is kilometers ahead in getting their story out on paper with a very professional and user-friendly backgrounder chock full of quotable quotes and easy to read and borrow explanations. Guess whose lines will get used in a pinch or if the beaches are too inviting?

These meetings will be shaped nearly as much in the media centre briefing rooms as in the meeting rooms. One might expect that the meagerness of results will be clear within a day or two and the rest of the time will be spent in drafting the final communiqué so victory can be declared. At the same time, the media briefings will likely reflect a lot of finger pointing and blame casting.

The conference results are likely to be shaped by the following positions:

China has made it clear that they gave all they are going to give (for now) in their accession negotiations. However Chinese ambitions in metals industries (like magnesium) are devastating Western producers. And China is showing its muscle in many markets around the world. And they want to be treated like a market economy for anti-dumping purposes which could make them even more competitive. Currency undervaluation is another important issue and the harder China is pushed on this, the more difficult they may become on other trade issues. China is engaged in FTA negotiations with ASEAN – a very interesting and potentially problematic initiative for other aspiring suppliers to both China and South East Asia. Bilateralism and regionalism are problems impeding progress here, but little will happen to alter that course; indeed underwhelming results will accelerate and exacerbate them.

The E.U. pushed for a Round – a “Millennium Round” – at Seattle; the USA was less ambitious and it didn’t happen. There was an agreement to a not overly ambitious agenda at Doha. This was driven by a foreign policy imperative – a need to show solidarity after September 11, 2001.

President Bush’s new 6 point economic plan focuses in part on improving market access. This means a major push at Cancun to get the Doha Agenda back on track, but if the WTO is too slow then the U.S. will intensify the bilateral approach they have already accelerated throughout 2003.

Does the USA really want a big result or do they find the WTO a nuisance? Do they want to shift their focus to bilateral and regional deals? The U.S. is leading the charge for China to revalue its currency. USTR Zoellick has shifted into high gear trying to connect with his counterparts – one on one and in groups in the few remaining days. Key Ministers went to Mexico days ahead of the opening session, to work with each other and to co-ordinate with the Chair. This is, indeed, a major salvage operation.

The USA must push farm subsidy reforms because American farmers want them to. But their own, very distortive and disruptive financial support has been identified for reduction by an increasing number of countries, particularly developing countries. The USA will not want to back down on their “Green Box” no matter how it devastates the developing countries and for that matter its NAFTA partners. Iowa is the first Presidential primary – and few who hope to be President are prepared to impair their prospects here. Many U.S. domestic subsidies could be challenged and found to be WTO-inconsistent. But they must be challenged to enforce the rules. To date, few have been prepared to bell the cat.

Most of the activity here this week will be in the agriculture negotiations, but even with the intensified activity by Senior Ministers, one should not expect numerical targets to

emerge. Ministers from smaller countries will press for greater disciplines in the USA and Europe. And if they do not get them, or a promise to discuss them seriously, they will hold back on other issues.

Developing Countries need change and they need a vehicle to do it. Agriculture is important. They are being devastated by the deep pockets, production stimulating subsidies of the USA and E.U. Attaching labels or colour to the subsidies is not helpful. Every dollar or euro in the pockets which comes from the government divorces production decisions from market realities.

The Cairns Group of Agricultural exporters have been very frustrated in their efforts to secure an ambitious package on agriculture – and this usually very tight group is showing some strains.

India was not at all interested in a new Round even at Doha. At that time, they were rather isolated and subjected to very intense pressure not to be “spoilers”. Now they have a significant number of supporters. And they are claiming leadership in the developing countries’ battle against trade distorting domestic subsidies maintained by the USA and Europe. The USA–E.U. framework is a bankrupt document, both intellectually and ethically. It lacks balance and offers smokescreens while ignoring and proposing to perpetuate the disruptive effects of deep pockets Agricultural policy. Brazil has said the focus must be domestic support and leave market access for later. This approach is very meritorious but the politics are difficult for the big subsidizers who could decide to pick up their marbles and go home.

The so-called “Singapore Issues”

- trade facilitation;
- investment;
- transparency in government procurement;
- competition policy;

are divided along North-South lines. The USA was a strong proponent of moving on these issues, but now seems less interested.

U.S. and Canadian business leaders strongly support an ambitious agenda (as long as for some, unfair trade laws are not weakened). Business supports a sound, high quality Agreement on Investment. The E.U. and Japan are key promoters. The U.S. were also strong supporters in the past, but their support is now lukewarm at best – a policy and negotiating shift, driven by U.S. experiences with investor-state dispute settlement under NAFTA Chapter Eleven. Business advisors are beginning to focus more pressure on this issue.

Investment is a key issue for business in industrialized countries. But the E.U. proposals are rather weak. The USA has become less enthusiastic about investment in the WTO. It is clear that they want a high quality agreement – and developing countries' resistance, and NGO agitation and protest (largely uninformed) will make this very difficult. But the USA can achieve what it wants in Bilateral Investment Treaties (BITs).

One must wonder why countries which desperately need foreign investment are not more inclined to negotiate and accept disciplines. Their positioning in the WTO may be an attempt to maximize the concessions they can extract from the demandeur. And they know that the best protections they can offer as hosts to foreign investor are BITs.

The proposed Multilateral Agreement on Investment (MAI) died an early death because of:

- misinformed and manipulative NGO pressure; **and**
- inability or reluctance on the part of governments to engage in effective communications plans.

Memories of their MAI experience are still fresh in the minds of some governments. Suspicions of MNEs have not been diluted, and developing countries are not pleased with disciplines and administrative structures imposed upon them by the Uruguay Round Agreements on a wide range of regulatory activities.

MNEs are concerned that a weak agreement on investment should not dilute gains they have secured in services negotiations. This issue is not ready for harvest – and little meaningful is likely to emerge from Cancun. More study perhaps – but even this is likely to be cast in very vague and non-committal terms.

The media briefings by some of the world's best and most accomplished spinmeisters begin shortly. Hopefully this peaceful venue will cause them to seriously seek the compromises which will in the end create a broadly based win/win consensus.