



15th PECC General Meeting
Brunei Darussalam



Focus Workshop on Trade

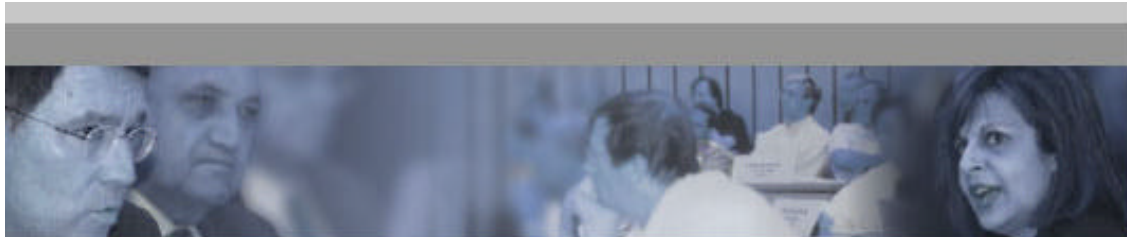
September 1, 2003
Room J-3
International Convention Centre

**The Evian Group Eleventh Hour Appeal for
Cancun**

Jean Pierre Lehmann
IMD

Pacific Economic Cooperation Council

4 Nassim Road Singapore 258372 Tel: +65 67379822 Fax: +65 67379824 Email: info@pecc.org www.pecc.org



The Evian Group Eleventh Hour Appeal for Cancún

Michael W Garrett, Jean-Pierre Lehmann and Valérie Engammare⁺

Summary & Introduction

Concerns that the outcome of the WTO Ministerial Meeting next month at Cancún, Mexico, will be a disappointment – not to say a failure – are now prevailing. There is every reason to view these prospects with alarm. There is no valid reason why what has increasingly become the self-fulfilling prophecy of the failure of Cancún should be occurring. Were the WTO members to hold to the spirit and the letter of their commitments made in Doha in November 2001, Cancún would be, as it should be, a positive step not only toward the successful and timely completion of the Doha Development Round, but also a not insignificant milestone in generating greater global prosperity and equity. With only a month remaining, this communiqué is being issued as an eleventh hour appeal to WTO members to ensure that a proper and fair victory – not one of the Pyrrhic variety – should be snatched from the jaws of failure. We believe this is possible. It is a question of leadership, courage and vision. It is also a question of focus and priorities. In the following pages we identify what issues need to be addressed as priorities and how – in what spirit – they need to be addressed.

Since its establishment in 1995, The Evian Group has issued a series of warnings in the course of its annual plenary meetings, its regional meetings and through various public policy communications, in respect to the erosion of the liberal world economic order and the rules-based multilateral system. In September 1997, the then Evian Group Chairman, the late David de Pury, warned of a coming backlash. The backlash has not abated. The liberal world economic order has lost the high ground, partly because the very custodians of the liberal world economic order are themselves responsible for undermining its principles and spirit.

The trends triggered at Seattle – crisis of confidence in the global liberal trading order and in its institutions, trans-Atlantic trade tensions, and growing divergences between North and South – have not been reversed. Though a glimmer of hope appeared at the Doha Ministerial Meeting in November 2001, it has since been rapidly extinguished. These trends need to be reversed. That objective should over-ride all others at Cancún.

The stakes are very high. This “development” round is not just about “developing countries”; it is about global economic development and global governance. It concerns everyone.

Of the many reports that have been published, the authors of this communiqué are in quite strong agreement with the conclusions and recommendations of the UK House of Commons International Development Committee report issued on 14 July, entitled *Trade and Development at the WTO: Issues for Cancún*. It contains powerful, albeit highly balanced and objective arguments, and powerful messages. As it states: “**The promises made at Doha must not turn out to have been empty, for all our sakes.**”

⁺ The authors are respectively Chairman, Founding Director and Research Fellow of the Evian Group (www.eviangroup.org). Though the ideas presented in this communiqué reflect the “spirit” of The Evian Group, it should not be interpreted as expressing the views of its individual members. The responsibility for the contents of this communiqué lies exclusively with the authors.

This communiqué does not propose to cover ground that has been quite extensively covered by many institutions – and in other Evian Group publications – on the benefits for the global community and especially developing countries to be accrued from the commitments made at Doha. As an “eleventh hour” appeal it will focus on certain key issues and points. Specifically, the seemingly irrefutable fact that Cancún (and the Doha Round) will fail if there is no agreement on agriculture and TRIPS should concentrate negotiators’ minds.

It is divided into three parts: Context; Action at Cancun; Post-Cancun

Context

1. Ministers, ambassadors and senior officials of WTO member states are **the custodians of the liberal trading system** established in the wake of World War II. That system was built on theory, on empirical observation AND on an ideal. In 1937, Cordell Hull, one of the architects of the post-war trading system, wrote: ***“I have never faltered, and I will never falter, in my belief that enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in international trade.”***
2. That ideal has provided to the member states of the GATT/WTO **unprecedented peace and prosperity**. Europeans, Americans and Japanese in particular have benefited enormously. Contrast the prosperity of Western Europe with the penury of Eastern Europe; Japan could never have restored its economy without the benefit of exporting to an open world market; nor could America have achieved such a high standard of living without the open rules based multilateral trading system.
3. **The logic of reciprocal gains from trade and wealth creation** is compelling. By combining both open markets and aid (through the Marshall Fund, loans and grants from the World Bank, etc), the post-WWII United States enriched its erstwhile enemies (Japan, Germany, Italy) as well as its allies. This resulted, among other things, in rich customers for American companies and exporters
4. **Providing developing countries with open market access to OECD countries and providing aid and capacity building** would in essence be doing no more than the “rich” countries did for each other half-a-century ago. Just as the US gained from a richer Europe and Japan, so the countries of the North will gain from richer countries in the South.
5. That was the logic behind the Doha Development Round.
6. In 2003, the custodians of the liberal trading system - the political leaders, the ministers, the ambassadors, the senior officials of the WTO member states - must ask themselves how much they are **living up to their responsibilities and preserving the legacy with which they have been entrusted**.
7. Especially amongst the young, a great deal of cynicism has developed in respect to all that is associated with globalisation, including the WTO and the open liberal trading system it is supposed to represent and uphold. If political leaders and senior officials appear to backtrack from the commitments made at Doha, they will add to the cynicism and further erode confidence. In a global age where the public demands **more accountability, more transparency and more legitimacy, the current image of the WTO - missed deadlines, backtracking and combative rhetoric - does little to promote and gain public support** for the system.
8. **The national delegations to the WTO should be open and communicative, both in respect to explaining their acts and in listening to outside opinions and advice**. Citizens, as well as companies, are the stakeholders of the multilateral trade talks. An essential step should thus be to provide them with information on the system and the ongoing negotiations.
9. It is also vitally important that **business leaders from the North make their voices heard in support of a proper development round. For major multinational corporations to continue expecting to invest in, export to and profit from the markets of developing economies, while their governments block or impede the**

exports of these same developing countries to their own markets is not sustainable. Business leaders must be unequivocal on this matter.

The rules-based multilateral liberal trading system was established in the wake of World War Two, drawing the lessons from it. It has provided unprecedented peace and prosperity. For the 21st century to provide prospects of peace and prosperity, the system – and the ideals the system espouses – need to be both strengthened and modernised.

Action at Cancún

10. At Doha the member states committed to a Development Round and promises were made. What the world is entitled to expect is nothing less than that **the member states should abide by the commitments they entered into and the promises they made.**
11. Cancún is about the action needed to ensure that commitments and promises made in Doha are respected. **Cancún is about outcomes.** And to achieve those outcomes, it must be based on cooperation, not confrontation. **The win-win principle on which the international trading system rests must be well reflected in Cancún.**
12. The US and the EU must also put their own differences in the perspective of a “development round”; they must not dominate, impose, bully, and above all conspire.
13. A North-South divide, no matter whether perception or reality, should by all means be avoided. Ensuring that the Doha Round has **a comprehensive development dimension is a means to restore trust** between the developed and the developing world, which is an indispensable component of global stability.
14. Developed countries should create trust by showing **genuine commitment to the liberalisation of sectors that are key for developing countries** – in particular agriculture. Developing countries could enhance trust in showing stronger real commitment to launch domestic reforms and improve governance, as a number already have.
15. Adequate mechanisms should be developed to reflect the different needs of developing countries in terms of their levels of economic development and capacities to benefit from liberalisation.
16. WTO is not a development agency; an open trading environment can only provide opportunities. **The Doha Development Round is no panacea.** However, a successful Doha Round would send a positive signal to younger generations, especially in developing countries, that they can have a better life, secure jobs and opportunities; and that they are **included, not excluded, from the global market.**
17. It is also undeniably the case that many obstacles to development lie in the poor structures and governance of developing countries and that trade barriers between countries in the South are a major obstacle to development.
18. However, **failure at the Cancun meeting** – and of the Doha Development Round – could only increase the lack of trust among member countries and lead to an increase in bilateral and regional deals, carving the world into trading blocs and abandoning the multilateral level playing field. Business would be further alienated. The “anti-globalisation” movement would gain new impetus. One of the dangers is that the system will not necessarily collapse, but gradually erode, becoming no more than a façade. **The multilateral rules-based liberal trading order would be further and possibly irrevocably undermined.**

Key Priorities

19. There are two important objectives. The first is that Cancún should deliver in a tangible manner. The second is that **what is delivered should be good for development.**
20. While the Doha Round will not prove a miraculous solution to world poverty, it has an important role to play in the process of wealth creation and development. At Cancún, efforts should be made to ensure that all conditions are met for the Round to play this role. And it must be accepted that **global development requires explicit commitment as well as specific timeframes and measures.**
21. In an ideal world, the Doha Round should be able to encompass the many issues that are before it. With successive deadlines missed and the WTO negotiating community in an apparent state of disarray, this can hardly be described as an ideal world.
22. There is therefore an overwhelming case to be made for **focus and prioritisation.** Trade liberalisation needs to be deepened, not widened, and it is thus crucial to ensure that liberalisation is comprehensive in key issues (such as agriculture).

Agriculture, Agriculture, Agriculture

23. **Agriculture must clearly be the first priority.**
24. Though the issues are complex, some of the necessary outcomes are actually quite straightforward. **The meeting at Cancún should work from the outcomes back, rather than from the complexity of the issues forward.**
25. **The EU, the US, Japan, Korea, Switzerland and Norway must cease engaging in agricultural policies that cause “underdevelopment”. There must be an unqualified commitment to bring all such practices to an end in the shortest possible period of time.**
26. It is not necessary to repeat here **the many outrageous examples of the destructive and deleterious effects of subsidies in OECD countries** – in cotton, in sugar, in dairy products, among many others – on developing countries.
27. It is **economic madness and morally reprehensible.** Such practices must be eradicated.
28. Considering that agriculture represents a very small (about 2%) share of GDP among industrialised countries and an equally small share of employment, in contrast to, for example, Africa, where it represents over 30% of GDP and 70% of employment, benefits from agricultural liberalisation in OECD countries will obviously be considerable for developing countries.
29. However, we recognise that there are a range of non-trade concerns – such as animal welfare, preservation of the rural landscape, lifestyle and rural employment – which underlie agricultural policy. What we seek is for those concerns to be addressed through non-trade-distorting means, **to be paid for by rich countries with the informed consent of their consumers – and not, as at present, paid for by the rest of the world.** The emphasis and priority must be on global development, not on “multi-functionality” in the rich countries.
30. This provides a good example of what is meant by beginning with outcomes and working back. **The outcome is to cease trade distorting and impoverishment causing agricultural subsidies and other policies** This can only be achieved if governments adopt **a constructive approach to agricultural negotiations** and try to seek solutions rather than holding on to their current positions.
31. That **MUST** be the outcome of Cancún.

TRIPS

32. Another priority item of the development agenda at Cancún is the issue of access to medicines and the TRIPS Agreement. A failure to reach consensus on that point could undermine the outcome of the whole Round.
33. Like agriculture, TRIPS negotiations are an area of particular importance for developing countries. **Public health is crucial for poverty reduction and human development, and there will be no successful Development Round if public health concerns are not appropriately taken into account.**
34. Very poor countries lacking capacity to produce medicines under compulsory licensing must not be denied access to cheap generics produced in other countries. However, the conditions under which generics are exported must ensure that re-import in developed countries is impeded and that it does not represent a disincentive for research. The outcome of negotiations should thus be balanced and respect both public health and innovation imperatives.
35. The priority and over-riding objective must be to devise the means to bring the pandemics under control and to aim for the elimination of diseases that kill (AIDS) and that weaken (malaria, dysentery, etc.)
36. Hence, this is another example of where the model should be used of beginning with the outcome – the much wider availability of drugs for public health in poor countries – and from there working backward to identify means that will seek to prevent intellectual property right violations, grey market imports and smuggling.
37. As is the case with many other development related issues, a positive outcome on TRIPS and public health is not per se a guarantor of reducing, let alone curing, diseases. Very much depends on local conditions and governance.
38. In Cancún what is at stake is trust and credibility. **Restoring trust and credibility is essential and a positive outcome in TRIPS is an indispensable means to that end. A system that does not enable the poorest to access medicines and improve public health cannot be perceived as seriously committed to development.**

Market Access in Non-agricultural goods

39. If agriculture and TRIPS should be priorities at Cancún, eradicating **the unacceptable anomalies whereby developing countries pay disproportionately high tariffs** in their exports to industrialised countries must also be a critical Cancún outcome.
40. Studies by the Washington-based Progressive Policy Institute (PPI) reveal and underline the truism that it is **the poorer members of society who bear by far the highest costs of protectionism**.
41. **The discrimination against the poor resulting from protectionism applies to poorer citizens within societies as it does to poorer countries, and generally the poorer members of poor countries**
42. In one of their many illustrations, the PPI shows how imports of gems and jewellery into the US in 2001 worth \$17.1 billion generated tariff revenues of \$181 million, while imports of baby clothes for the same year of \$1.9 billion generated tariff revenues of \$187 million.
43. Especially important is the commitment that must be made at Cancún that the punitive manner in which tariffs are imposed especially on the labour intensive manufactured products of developing countries must be rectified in the very near future. Garments and textiles have an especially significant position. The industrial transformation of all currently industrialised countries was driven by the manufacture of textiles and garments.
44. Achieving the Millennium Development Goals will to a very considerable extent depend on the ability of developing countries to create employment. Labour intensive industries, by definition, create employment. **Developing countries should be given all possible incentives to generate domestic and foreign investment in job-creating light**

industries. Obtaining much enhanced market access in industrialised countries is a prerequisite.

Special and Differential Treatment (SDT)

45. Several things that critics of trade liberalisation allege are perfectly true. One is that **the one-size-fits-all trade liberalisation policy and its correlation to development is a fantasy.**
46. Though it is clear that inward looking import substitution policies pursued by many developing countries have failed and that protectionism has resulted in rent-seeking oligopolies that, in turn, cause huge income gaps and nefarious social consequences, it does not follow that adopting policies at the opposite end of the spectrum are *per se* justified.
47. While, it is always the poor, as noted, who pay the costs of protectionism, it is often also the poor who pay the heaviest price in cases of excessively rapid and excessively extensive market opening. One should recall that “shock therapy” often results in disproportionate shock and little therapy!
48. The objective of Cancún must not be for the developed countries to impose particular theories or policies of trade liberalisation on developing countries. Their own “developmental models” have varied and for the most part have not followed the prescriptions on trade liberalisation that they would seek to impose on developing countries today. As the father of China’s reform programme, the late Deng Xiaoping, put it, the proper approach is “**to cross the river by feeling the stones**”. That highly pragmatic maxim has universal application.

Singapore Issues

49. The inclusion of the Singapore issues in the Cancún agenda has been very controversial; this is especially true of investment and competition. Trade facilitation and transparency in government procurement have generated less opposition. One clear implication is that the Singapore issues must be discussed separately, and not as a package.
50. Quite emphatically, **the Singapore issues should NOT serve as “bargaining chip”** in exchange for agricultural reform. The legitimacy of the Singapore issues, as in other matters related to the Doha Development Round, will depend on the degree to which they are relevant, indeed contribute, to development and can legitimately be included in trade agreements.
51. There is no doubt that the Singapore issues are important, yet their untimely negotiation should not undermine the success of key items on the Doha Development Agenda. It is therefore incumbent upon the member countries not to push for the inclusion of the Singapore issues at Cancún if it appears that there is little likelihood of establishing a consensus.
52. **The bottom line is that the failure or success of the Doha Development Round does not lie in the exclusion or inclusion of the Singapore issues. To the contrary, there is little doubt that the Round will fail if no agreement is found on agriculture and TRIPS. Priority should thus clearly lie in these two fields.**

Movement of People (GATS mode 4)

53. A key driver of the 21st century will be demographics. Over the course of the next half-century, as the populations in Africa, the Middle East, parts of Asia and Latin America will boom, the population of Europe and Japan will stagnate and decline. A demographically booming young developing world will contrast with a demographically stagnant old developed world.
54. Against this backdrop, a modest step in the right direction would be to accelerate progress in **Mode 4 of the GATS** – trade in services by means of temporary movement of service

suppliers. **The development benefits are myriad:** remittances sent by workers to their home countries are a major source of foreign exchange for many developing countries; additional skills gained by these workers can contribute to increased human capital in their countries of origin; temporary international movement can create awareness of skilled labour and encourage foreign direct investment (FDI).

55. Mode 4 has raised a number of sensitivities in both developed and developing countries. However, greater dialogue and policy coordination between trade, labour and migration authorities is the key to finding the pragmatic and workable solutions which will enable the potential gains from Mode 4 to be reaped by developing and developed countries.

Capacity building

56. **The capacities that developing countries primarily need include the forming of engineers, technicians, school teachers, accountants, managers, and lawyers and civil servants able to administer the rule of law and to manage the internal conduct of trade.**
57. In recognition of the fact that development policies are about the strategic allocation of scarce resources – in many cases, very scarce resources – great caution should be exercised in ensuring that the capacity building programmes in developing countries meet the real needs of the countries concerned and not just for more ephemeral goals, such as improving negotiating skills. (They should also be primarily of benefit to the countries concerned, not the northern institutions or NGOs that administer them!)
58. Furthermore, while quantities of money are being ditched out from various national and international sources to provide “capacity building” in developing countries, little effort seems to have been made to assess the **quality of the capacity building programmes**. High value for money must be the main objective.
59. We re-emphasise therefore the fact that capacity building is an important element, but where efforts are needed **to determine needs and the effectiveness of any given programme within a broader context of development and national priorities**.

It should repeatedly be emphasised that the objective of a development round is NOT to pander to developing countries, individually or collectively, nor is it about concessions: it is about economic cooperation aimed at reducing poverty, enhancing prosperity for all and contributing to peace. The Doha Development Round was launched in the wake of 11 September. The logic in 2003 is just as compelling as it was in 2001.

Post-Cancun

60. Cancún will not and of course cannot bring to a successful conclusion the Doha Development Round. What **Cancún can do – indeed MUST do – is to set a framework and a mindset by which the Doha Development Round can be successfully completed on time.**
61. Having found a consensus on the ends that must be achieved, finding the means will be more straightforward. Critical also in **the mindset must be the commitment that failure and delays will not be permitted.**
62. Ministers must make it absolutely clear among themselves – and to the broader public – that the **costs of failure of Doha will be enormous and long-lasting**, In that sense, Doha, it must be made clear to all, is of vital importance.
63. It must also be made clear, however, that while Doha is of vital importance, it is not a destiny in itself, but a milestone to a more distant destination. **The actions taken and policies adopted in Cancún and in the follow-up to Cancún will have a determining impact on the future of the planet.**
64. Having gained a consensus, ministers and other senior officials will need to spend time leading up to the final conclusion of the Doha Development Round in promoting it to other players in the policy process and especially to public opinion. **To be able to demonstrate that the Doha Development Round is about global development will be of utmost importance.**
65. Obviously a key factor for the success of Doha will be the **commitment given by the member states' heads of government.**
66. **Vision, leadership and the ability to articulate them compellingly will be required at the highest political levels.**

The greatest challenge in the 21st century will be to achieve the integration of new members and developing economies into the multilateral trading system and, more broadly, into the global economy. Against this backdrop, failing to achieve the Doha Development Round, failing to keep up to the promises made, would be an act of reprehensible and irresponsible cynicism.

A Development Round cannot afford to fail. To that end, Cancún must be a success.

Contact us :

**The Evian Group, IMD,
 ch de Bellerive, 23, Box 915,
 CH 1001 – Lausanne, Switzerland**
 tel: +41-21-618-0697; fax: +41-21-618-0619
www.eviangroup.org
info@eviangroup.org