

Do developing countries have their rightful place in WTO priorities?

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Ladies and Gentlemen, it is a great pleasure to be here at the World Economic Forum. I did not manage to get to the Davos event earlier this year, but frankly the winds are rather warmer here in Durban, the Davos of the south. Perhaps we can persuade the WEF to relocate permanently to Durban. You never know, before long we'll be referring to Davos as the "Durban of the North". With the G15 meeting in Cairo and the new EU-ACP Agreement being signed in Cotonou this week too, Africa is attracting a good deal of attention.

In my very correct French education, I was always taught to answer the question that is put. So: "Do developing countries have their rightful place in WTO priorities" ? The answer is "no - not yet". But I somehow doubt that answer gives you value for money, and I should say a little more.

Clearly, there is a feeling of discontent amongst a large number of developing countries that the odds in the trading system are stacked against them, a conviction that the Uruguay Round imposed substantial obligations on them without delivering commensurate benefits. I agree with this to some degree. Although globalisation brings a lot of benefits to emerging economies, it has not done so thus far for most sub Saharan African countries.

The key economic facts are clear. The share of least developed countries in world trade is in steady decline: from 0.8 percent in 1980 to 0.4 by 1997. Sub-Saharan Africa's share has gone down from 1.2 to 0.8 percent. Foreign direct investment into the whole of Africa was just three per cent of total FDI flows into developing countries in 1997 (roughly comparable, for example, to FDI in Malaysia in that year). The river of world trade and investment flows right by the smaller, weaker developing countries, like Kipling's "great, grey, green, greasy Limpopo river", but the water does not carry business to their banks. It is not simply a question whether developing countries get a fair deal from world trade. For a number of them, the issue is: do they have a stake in the system at all ?

So who is to blame ? The trade system ? Africa ? Africa's partners in the North? The right answer is all three, in my view, which means that all three must work in partnership to find the solution. Where better than the African continent to face up to three hard questions on the link between trade and development:

- Is trade liberalisation good for development?
- Is trade liberalisation alone enough for development?
- Can multilateral trade rules be better tailored to the needs of developing countries?

On the first question, is trade liberalisation good for development ? there are few certainties in life, fewer in economic theory, and virtually none confirmed by economic reality. But one is that trade and foreign direct investment confer large efficiency benefits and promote economic growth. Trade liberalisation plays a necessary role in development and by extension, the fight against poverty. Expanded trade, liberalised trade should lift everybody's boat. But there is a split between a group of middle income developing countries which are successful participants in global trade and a large number of nearly 80 developing and

transitional economies. This group comprises 35% of world population, who don't really feel they're on any boat. This is neither acceptable nor sustainable.

So what can we, the industrialised countries, do about it? We bear a major responsibility in making the trading system more responsive to the needs of developing countries. We must reduce and where possible eliminate those distortions that impair LDC access to our market, especially in labour-intensive and natural resource-intensive sectors, where of course LDCs enjoy comparative advantage. We must do more to help LDCs become a major player in institutions like the WTO. We must offer asymmetric trade liberalisation, and provide for differentiation in areas such as of rules of origin, as the EU has done in its free trade agreement with South Africa.

At the same time, we must also admit that there are exceptions to the logic of international division of labour based on comparative advantages. Agriculture, for instance, is a formidable issue at the crossroads of major environmental, food security, health and food safety concerns. We in the EU do not see it just as another business. But we are committed to make our support for agriculture less and less trade distorting, we are delivering on our existing commitments and we are ready to do more.

On the other hand, developing countries must also continue on a judicious and country-specific path of liberalisation, taking into account their economic and social constraints as well as their capacity to adapt. High tariffs, for instance, often distort the local economy, aid the development of monopolies and cartels, rents for the few, penalising the many through high consumer prices, increasing the price of imported capital and technology-intensive goods. These, and other trade restrictions, are not in the interest of developing countries and should be gradually phased out.

But, is trade liberalisation alone enough for development ? Clearly, trade liberalisation is necessary. But is it sufficient ? Developing countries face a daunting task. The shock of globalisation on world markets can be severe to young and still weak market economies as shown up so starkly during the Asian crisis. Fledgling businesses have to compete with efficient corporations enjoying all the advantages and support that sophisticated market economies afford to them. Last, the objective of sustainable development requires that full attention be given to the environmental, social and economic impact of these economies' market opening. Support for liberalisation requires that the benefits (and the opportunities), as well as the burdens, are shared equitably within, as well as between, countries. Governments must design measures to cushion the negative impacts of liberalisation and to distribute the benefits and opportunities more fairly, for instance through retraining programmes and safety nets.

All too often, this means that many developing countries are unable to share in the benefits of global growth and to break the vicious circle of impoverishment, technological stagnation, health crises and rapid population growth. There are opportunities for them to grasp. But only determined and well thought through domestic policies, backed up by enhanced international support, can transform these opportunities into sustainable development.

Think of it this way. Progress towards development rests upon a triangle. The sides of the triangle may be of differing lengths according to the specific situation of each country. But each side - trade liberalisation, domestic policies, international support - must have the same effective strength. Sound domestic economic policies, both at the micro and macro levels, backed by renewed efforts towards good governance and institution building are key to any development strategy. Trade liberalisation cannot substitute for them. Nor will any benefit from trade liberalisation accrue in their absence.

All this leads me to the key question: can multilateral rules be better tailored to the needs of developing countries?

Which means: how can we transform rules, and the process of rule-making, to make them more suitable for developing countries in the future? Put bluntly, smaller nation states no longer have the power on their own to harness the effects of the globalising economy. International solutions are needed. To this end, the WTO has to be the best game in town. In that context, our priorities should be,

- first to reinforce the rule making function of the WTO and,
- second to encourage regional integration as a means by which developing countries reach the critical mass necessary to fully benefit from market opening and to punch above their weight in the decision making process. Through integration, as the EU's experience in the trade field has shown, the whole can be greater than the sum of its parts. The new ACP/EC Partnership Agreement which will be signed in Cotonou tomorrow clearly serves this purpose.

But what is the mechanism by which the WTO can deliver? First and foremost it means a new negotiating round, and one that is balanced - and perceived to be balanced - so that all participants can gain. It means that all members must contribute to setting the agenda, and not just the major players. We cannot have a development-only round any more than a market access-only round or a rule-making only round. Balance is needed to allow the necessary trade-offs between all WTO Members' interests.

Incidentally, the WTO has itself to be more inclusive. Seven countries, all to varying degrees countries in development, have joined the WTO since its inception 5 years ago. Vanuatu, a least developed country, is on the threshold. But however vital, we should not pretend that it will be easy - the threshold of entry requirements set by Chinese accession is high.

Overall, a new Round is needed to rebalance the activity of the WTO away from excessive litigation, and towards new rules. We of course strongly support the Dispute Settlement mechanism, but it does not provide the appropriate forum in which to develop policy in areas such as the environment.

What other benefits can a new Round bring ? First, a new Round has the capacity to impact directly on the question of **governance**. WTO rules taken together provide predictability, stability and enhanced transparency, and ultimately an open trading system goes hand in hand with the promotion of democracy and openness. It also offers protection to smaller countries: developing countries that, in the absence of the multilateral shelter would be exposed to the unilateral trade policies of more powerful partners.

Second, the **legitimacy** issue. I don't know if Mike Moore has done any polling, but let's face it: the institutions of global governance, including the WTO, are not popular. So we must develop the WTO's **internal** transparency so that the organisation responds better to its members. We have to make a specific effort to help strengthen the negotiating capacities of developing countries. But we also need to focus on **external** transparency and participation. This is certainly difficult, but also inescapable, if we are to preserve the political legitimacy of the system both in the developed and the developing world. And again it can only be seriously considered in the context of a comprehensive round.

In conclusion, globalisation of markets must be balanced by global governance. Not world government, but better functioning of the institutions at the global level to make better global policy, where needed. As I have said, we need a policy triangle to promote sustainable development, including trade liberalisation, sound domestic policies and enhanced international support. This triangle needs three-dimensional support in the international system to operate: the three pillars of the multilateral, multipolar system. The first pillar is the WTO, where trade rules are made. The second pillar is the UN system with its normative role in setting environment, labour and food standards, a role incidentally well recognised by

Kofi Annan, the Secretary General. And the third pillar is the Bretton Woods system, the IMF and World Bank, providing financial support.

But in any morality tale of this sort, the teller of the tale must always leave the final prescription for himself.

It is clear for the EU that we need to work to strengthen these three interconnected pillars to ensure that developing countries receive more effective backing from the international community. And so, finally, let our bilateral policy and multilateral policy support each other. The Trade, Development and Co-operation Agreement between South Africa and the EU, and the new ACP-EU Partnership Agreement demonstrate the European commitment to make the development of Africa a major geopolitical success story. Multilaterally, let us take together the critical step of launching a new Round: a step for which both European and African support will be essential.