

CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

SPECIAL DOUBLE ISSUE—FROM DOHA TO KANANASKIS: THE FUTURE OF THE WORLD TRADING SYSTEM AND THE CRISIS OF GOVERNANCE

What is the WTO for?

GLOBAL GOVERNANCE

There has been a lot of discussion about two issues: to what extent can or should the WTO contribute to global governance by expanding its rule-making functions into new areas, and can the new multilateral trade round do enough to help lift the WTO's poorest members out of poverty? Does it deserve the title "the Doha Development Agenda"?

With respect to the first issue, many critics of the WTO have demonized the organization as a stealthy conspiracy between multinational companies and unaccountable

BY GUY DE JONQUIÈRES

Guy de Jonquière is the world trade editor for the *Financial Times*.

bureaucrats to trample the world into submission. Among other things, they say it stands accused of despoiling the environment, pauperizing entire nations, and even of killing people. Not bad going for an organization with 500 permanent staff and an annual budget of less than \$90 million. World domination never came so cheap.

What is the WTO for? page 6

Reflections on global economic governance

THE NEED FOR GLOBAL ECONOMIC GOVERNANCE

The emergence of a global economy implies the need for some form of global economic governance. The same functions that governments perform at the national level somehow must be performed at the global level. These include maintaining the supply of "public goods" that markets do not supply—for example, macro-economic management for global economic stability (now imperfectly performed by the IMF (International Monetary Fund), BIS (Bank for Inter-

BY GERALD HELLEINER

Gerald Helleiner is professor emeritus, Department of Economics, and distinguished research fellow, Munk Centre for International Studies, University of Toronto.

national Settlements), and G7 finance ministers; the formulation and policing of rules for economic exchange, both internationally and, to some degree, domestically (now imperfectly performed in the WTO); and the setting of a floor below which levels of human living must not sink (now im-

Reflections, page 11

FEATURES

What is the WTO for? Guy de Jonquière, page 1

Reflections on global economic governance Gerald Helleiner, page 1

FROM THE EDITOR The dog that won't bark Daniel Drache, page 2

SERVICES The WTO negotiations on services: The regulatory state up for grabs Robert Howse and Elisabeth Tuerk, page 3

The GATS, democratic governance, and public interest regulation Scott Sinclair, page 13

TRIPS: Controversies and potential reform Keith E. Maskus, page 17

The WTO services agreement: Problems for municipalities Michelle Swenarchuk, page 21

Water for sale: The impact of international services on public policy and law Steve Shrybman, page 23

AGRICULTURE The crisis of governance and the WTO Martin Sharp, page 27

Farmers' opposition to corporate globalization and trade agreements Darrin Qualman, page 29

A Community (or European Community) perspective on the agricultural part of Doha David Roberts, page 33

LABOUR STANDARDS Labour standards and trade agreements: Never the twain shall meet? Jim Stanford, page 35

The trade policy-labour standards linkage Michael Trebilcock, page 38

Trade and labour standards: A view from the south Amit Dasgupta, page 40

GLOBAL GOVERNANCE One world, many systems: When universal trade rules collide with the need for policy diversity Daniel Drache, page 43

Trade blocs: The steep learning curve George Haynal, page 46

The Doha Development Agenda and global governance Carlo Trojan, page 49

Doha and after Sylvia Ostry, page 52

Global economic governance: The WTO's ongoing crisis of legitimacy Tony Clarke, page 55

The state of the anti-globalization movement: Challenges ahead Raghav Narsalay, page 57

The future of civil society opposition to neoliberal global economic governance Jan Aart Scholte, page 59

Facing the legitimacy challenges in the WTO Debra P. Steger, page 62



perfectly sought in the various agencies of the United Nations). Whatever positions may be held on the role of government at national levels, there is now virtually universal agreement that the global economy is undergoverned. More and better governance is required, not less. Institutions, customs, rules systems, and dispute settlement systems to perform these functions for the global economy have begun to appear; but satisfactory global economic governance arrangements are still only a distant prospect.

OBJECTIVES AND GOALS

Anti-poverty and developmental objectives are essential components of any ethically and politically sustainable approach to a globalized economy. Global poverty eradication and development for the poorest countries are already universally accepted global objectives, at the highest political levels, unlike objectives such as universal market liberalization or the harmonization of global market rules. There is agreement, at least at the level of official rhetoric, as found at the Millennium Summit, the Children's Summit, the Monterrey draft declaration, and various G7/8 pronouncements on humanitarian and developmental objectives that are often quite detailed in their specifics. When one asks, "what are international organizations for?" the answer is, in large part, to pursue the latter objectives. Yet the concrete reality of national and international policies does not square well with these ostensibly agreed upon, but still only rhetorical, objectives. There remains a huge gap between political rhetoric and policy practice.

THE GAP BETWEEN POLITICAL RHETORIC AND POLICY PRACTICE

There should be no illusion as to where the real power in decision making relating to the global economy will, for the present, continue to rest and that is, with the economically strongest countries, firms, and organizations.

If new processes and governance arrangements for the global economy are to carry worldwide credibility and legitimacy, they must provide greater voice, collective influence, and power for the developing countries and their peoples.

Money still talks. Even within "democracies," power and interest usually prevails over social objectives. At present, the most powerful country of all, the United States, isn't very interested either in strengthened multilateral organizations or in developmental objectives in the poorest corners of the globe (unless they can be shown to threaten US security).

Still, most of the world recognizes democratic principles and the universal validity of certain basic human rights, again at least at the level of political rhetoric. One must therefore begin, through appropriately democratic and universalistic processes, to build global economic and global governance arrangements that are not fundamentally at odds with agreed democratic principles as currently practised in the key international financial institutions (the IMF and World Bank) and, to some degree, in the young WTO. If new processes and governance arrangements for the global economy are to carry worldwide credibility and legitimacy, they must provide greater voice, collective influence, and power for the developing countries and their peoples. Financial crises in "emerging market economies" have forced some rethinking and rearrangement, although still fairly marginal, in the interest of systemic stability, of the role of crisis-prone and potentially systemically significant developing countries in international financial governance.

The poorest and smallest countries remain, however, on the margins of all global governance arrangements, without much prospect of significant voice or influence. Their situation is particularly stark in the WTO where many are not yet members and even more have zero or extremely limited representation in Geneva, where this supposedly member-driven and consensus-based organization does its work.

GLOBAL GOVERNANCE: A COMMUNICATIVE AND CONSULTATIVE PROCESS

Global governance should be thought of, not in terms of the creation of new global institutions but, above all, as a communicative and consultative process. A process through which genuine, uncoerced consensus is gradually built, rules and customs are mutually understood and often even agreed upon, and performance is continually reviewed. It is now widely agreed that the key existing multilateral economic institutions will have to move toward greater transparency, increased democracy and accountability to the global citizenry, increased provision for independent evaluation, and effective ombudsman-like and/or legal-aid mechanisms to protect the weak against the strong. The objective of "coherence" can be over-emphasized; often there may be increased productivity from a degree of constructive overlap.

Reflections, page 12

Existing WTO decision-making processes are severely flawed, especially in terms of the limits upon effective participation on the part of the smaller and poorer developing countries. Developing countries are deeply disaffected with the WTO and the legitimacy of its decision making is being subjected to serious question. At Doha, although these countries were better prepared for the ministerial meetings than ever before, they eventually had only marginal impact upon their outcome. "Consensus" was achieved, as before, through bilateral, behind-the-scenes pressure, dealing, and bullying. The WTO simply must find a more credible and effective decision-making system than the impossibly awkward, and abuse-prone, 140-country "consensus"-based system it now employs. The need for such reform of its internal governance is urgent.

Far from constituting an excuse for inaction, as some would have it, the WTO's youth should be seen as an opportunity for change before the encrustations of age set in, as they have done in the international financial institutions. In such internal governance reform, the GATT's "bicycle theory" should be recognized as dead and irrelevant in the new world of the WTO. With a new organization, while it is bound to have its ups and downs, as did the IMF and World Bank, there is no reason to assume that progress is best achieved through feverish bursts ("rounds") of mercantilist, lobby-driven negotiations. It is time for these urgent and breathless rounds to be replaced by careful, steady, step-by-step efforts, aimed at agreed long-run global objectives, to bring purpose, order, and credibility to the global trade regime and poverty eradication around the world.

A SUSTAINABLE APPROACH FOR GLOBAL RULE MAKING

As long as there is deep political and professional disagreement as to how national policies are best deployed in

[T]hose pursuing development from the most disadvantageous starting conditions must have the freedom to develop their policies in their own interest and in their own ways. They must be free to learn through trial-and-error, as others have done, what works best in their own unique and ever-changing circumstances.

pursuit of anti-poverty and developmental objectives, there is only one approach to global rule making in the WTO and elsewhere that is sustainable. That is a flexible and pragmatic one. Efforts at harmonization should not be pushed too far. In particular, those pursuing development from the most disadvantageous starting conditions must have the freedom to develop their policies in their own interest and in their own ways. They must be free to learn through trial-and-error, as others have done, what works best in their own unique and ever-changing circumstances. Universal rules systems, totally harmonized laws, completely "level playing fields," and irreversible "undertakings" are inconsistent with the need for local ownership of development policies and the learning-by-doing that is the essence of development. Nor is a tightly time-limited provision for "special and differential treatment" for the poorest countries sufficient to the purpose.

LOCALLY-OWNED POLICY DEVELOPMENT

Locally-owned policies are likely to include variations from "standard" northern-model and northern-pushed approaches to investment policies, trade policies, and intellectual property policies, among others. Within broad limits,

the global rules system should permit the poorer developing countries greater latitude for innovation and experimentation in the development of laws, institutions, and other development-friendly arrangements that their understanding of their own situations leads them to believe may encourage sustainable growth and poverty reduction. If there is to be expanded trade-related technical assistance for these countries, it should not, as now, consist primarily of instruction as to how to translate northern interpretations of existing WTO rules into reformed local legislation, or how to liberalize markets more quickly. Rather, it should comprise a sensitive response, with legal and economic expertise, to requests for help from countries struggling to develop their own institutional arrangements and systems, in their own way, for "dealing with" or "integrating into" the global economy. In this vision, as Dani Rodrik puts it, "the WTO would serve no longer as an instrument for the harmonization of economic policies and practices across countries, but as an organization that manages the interface between different national practices and institutions. . . . The trade regime has to accept institutional diversity, rather than seek to eliminate it, and . . . it must accept the right of countries to 'protect' their institutional ar-

Reflections, page 13

The GATS, democratic governance, and public interest regulation

THE MOST IMPORTANT SINGLE DEVELOPMENT IN THE MULTILATERAL TRADING SYSTEM

The General Agreement on Trade in Services (GATS) has been described as “perhaps the most important single development in the multilateral trading system since the GATT (General Agreement on Tariffs and Trade) itself came into effect in 1948.” Despite its importance, the GATS was hardly known when the Uruguay Round of international trade negotiations concluded in 1994. It has only recently begun to attract the public scrutiny that it deserves. This broadly worded treaty to enhance the rights of international commercial service providers has potentially far-reaching public policy impacts. These impacts merit serious attention and debate.

FROM THE GATT TO THE WTO

The GATS was created under the umbrella of the WTO, which came into be-

BY SCOTT SINCLAIR

Scott Sinclair is senior research fellow, Canadian Centre for Policy Alternatives.

ing on January 1, 1995 after eight years of complex and difficult negotiations. The WTO agreements subsumed and ranged far beyond the GATT, which had regulated international trade since 1948. While the GATT system had gradually been amended and elaborated throughout the post-war period, the advent of the WTO profoundly transformed the multilateral trading regime in several respects.

The most important of these fundamental changes were:

- While the GATT was simply an international agreement among “contracting parties,” the WTO is a full-fledged multilateral institution with “member governments.” It now takes a place alongside the Interna-

tional Monetary Fund, the World Bank, and other elite international economic institutions.

- While GATT rules primarily covered tariffs and trade in goods, the WTO rules cover not only trade in goods, but agriculture, standards-setting, intellectual property, and services.
- While the GATT focused primarily on reducing tariffs and other “at-the-border” trade restrictions, the far broader scope of the WTO means that it intrudes into many “behind-the-border” regulatory matters.
- While the GATT agreements had gradually expanded to cover new matters such as procurement or standards-setting, adhering to these side codes was optional. By contrast, the WTO agreements are a “single undertaking,” meaning that member governments have no choice but to be bound by all WTO agreements.

The GATS, page 14

Reflections continued from page 12

rangements.” This is the pragmatic and constructive way of the WTO’s future.

INTERNATIONAL FINANCIAL SUPPORT

In the end, there is no escape from the fact that poverty eradication and developmental objectives will require more finance. At present, the United States lacks the political will to increase significantly its official development assistance, except to those countries in which it has a security interest. But other countries, even some G7 members, do. Any Kananaskis consensus will have to incorporate US foot dragging on foreign aid. More progress in global poverty eradication and development objectives is therefore likely to be made in forums and cooperative arrangements other than the G7. If the

government of Canada were serious about its stated objectives in Africa, it would do better aligning itself with Europe and increase its support for development significantly.

Among the reasons why the UN Conference on Finance for Development (March 2002 in Monterrey) is potentially significant is that it marks the first time that the more representative procedures of the UN have been permitted to “intrude upon” the procedures and practices of the international financial institutions. Because of pressure from the United States and others, this “intrusion” has not been permitted to travel very far. Some would even argue that the UN has been co-opted into the world of the Bretton Woods institutions. Yet finance ministers are forced, by this event, to talk

about major financial issues with their “more political” counterparts in ministries of foreign affairs, not only in international circles but also at home. Despite the best efforts of the IMF, World Bank, and G7 officials to keep such matters off the agenda, global governance issues cannot help but surface at this UN conference.

Little of significance is likely to be achieved at this UN conference on international financial policies or governance, or even on development finance. This event, nevertheless, marks a small step toward more legitimacy because it consists of a slightly more representative process for the discussion of global economic governance. However small a step it may appear, its long-run significance, as a precedent, may prove to be profound. 