UNCTAD: Time to Lead, Time to Challenge the WTO

By: *Walden Bello**

UNCTAD X is being held at a very auspicious moment for the South. Two central institutions of the Northern-dominated system of economic global governance, the International Monetary Fund (IMF) and the World Bank, are undergoing a severe crisis of legitimacy and have, at least temporarily, lost their sense of direction. The South has the opportunity to seize the initiative, frame the terms of debate on the future of global governance, and push for the creation or institutions that will truly serve its interests.

UNCTAD can serve as the catalyst for this process.

A Backward Glance

To envision a strategy for the future, it is essential to glance back at the past, to reclaim the best in UNCTAD's history and to avoid its mistakes.

The place to begin this analysis is the period of decolonization in the 1950's and 1960's. The emergence of scores of newly independent states took place in the politically charged atmosphere of the Cold War, but although they were often split between East and West in their political alliances, Third World countries gravitated toward an economic agenda that had two underlying thrusts: rapid development and a global redistribution of wealth.

While the more radical expression of this agenda in the shape of the Leninist theory of imperialism drew much attention and, needless to say, condemnation in some quarters, it was the more moderate version that was most influential in drawing otherwise politically diverse Third World governments into a common front. This was the vision, analysis, and program of action forged by Raul Prebisch, an Argentine economist who, from his base at the United Economic Commission for Latin America (CEPAL), won a global following with his numerous writings.

Developed in the late 1950's and early 1960's, Prebisch's theory centered on the worsening terms of trade between industrialized and non-industrialized countries, an equation which posited that more and more of the South's raw materials and agricultural products were needed to purchase fewer and fewer of the North's manufactured products. Moreover, the trading relationship was likely to get worse since Northern producers were developing substitutes for raw materials from the South, and Northern consumers, according to Engels' Law, would spend a decreasing proportion of their income on agricultural products from the South.[1]

Known in development circles as "structuralism," Prebisch's theory of "bloodless but inexorable exploitation," as one writer described it,[2] served as the inspiration for Third World organizations, formations, and programs which sprang up in the 1960's and 1970's, including the Non-Aligned Movement, Group of 77, Organization of Petroleum Exporting Countries (OPEC), and the New International Economic Order (NIEO). It was also central to the establishment of the UN Conference on Trade and Development (UNCTAD) in 1964, which became over the next decade the principal vehicle used by the Third World countries in their effort to restructure the world economy.

With Prebisch as its first Secretary General, UNCTAD advanced a global reform strategy with three main prongs. The first was commodity price stabilization through the negotiation of price floors below which commodity prices would not be allowed to fall. The second was a scheme of preferential tariffs, or allowing Third World exports of manufactures, in the name of development, to enter First World markets at lower tariff rates than those applied to exports from other industrialized countries. The third was an expansion and acceleration of foreign assistance, which, in UNCTAD's view, was not charity but "compensation, a rebate to the Third World for the years of declining commodity purchasing power."[3] UNCTAD also sought to gain legitimacy for the Southern countries' use of protectionist trade policy as as a mechanism for industrialization and demanded accelerated transfer of technology to the South.

UNCTAD at its Apogee

To a greater or lesser degree, the structuralist critique came to be reflected in the approaches of other key economic agencies of the United Nations secretariat, such as the Economic and Social Council (ECOSOC) and the United Nations Development Program (UNDP), and it became the dominant viewpoint among the majority at the General Assembly.

Instead of promoting aid, UNCTAD focused on changing the rules of international trade, and in this enterprise it registered some successes. During the fourth conference of UNCTAD (UNCTAD IV) in Nairobi in 1976, agreement was reached, without dissent from the developed countries, on the Integrated Program for Commodities (IPC). The IPC stipulated that agreements for 18 specified commodities would be negotiated or renegotiated with the principal aim of avoiding excessive price fluctuations and stabilizing commodity prices at levels remunerative to the producers and equitable to consumers. It was also agreed that a Common Fund would be set up that would regulate prices when they either fell below or climbed too far above the negotiated price targets.

UNCTAD and Group of 77 pressure was also central to the IMF's establishing a new window, the Compensatory Financing Facility (CFF), which was meant to assist Third World countries in managing foreign exchange crises created by sharp falls in the prices of the primary commodities they exported. Another UNCTAD achievement was getting the industrialized countries to accept the principle of preferential tariffs for developing countries. Some 26 developed countries were involved in 16 separate "General System of Preferences" schemes by the early 1980's.

These concessions were, of course, limited. In the case of commodity price stabilization, it soon became apparent that the rich countries had replaSed a strategy of confrontation with a Fabian, or evasive, strategy of frustrating concrete agreements. A decade after UNCTAD IV, only one new commodity stabilization agreement, for natural rubber, had been negotiated; an existing agreement on cocoa was not operative; and agreements on tin and sugar had collapsed.[4]

Right-wing Reaction and the Demonization of the UN

By the late seventies, however, even such small concessions were viewed with alarm by increasingly influential sectors of the U.S. establishment. Such concessions within the UN system were seen in the context of other developments in North-South relations, which appeared to show that the strategy of liberal containment promoted by Washington's liberal internationalists, who held sway for most of the post-war period up to the late seventies, had not produced what it promised to deliver: security for Western interests in the South through the cooptation of Third World elites. The United Nations system was a central feature of the demonology of the South that right-wing circles articulated in the late seventies and early eighties. In their view, the UN had become the main vehicle for the South's strategy to bring about the New International Economic Order. As the right-wing think tank Heritage Foundation saw it, the governments of the South devoted "enormous time and resources to spreading the NIEO ideology throughout the UN system and beyond. Virtually no UN agencies and bureaus have been spared."[5] The South's effort to redistribute global economic power via UN mechanisms was viewed as a concerted one:

> Private business data flows are under attack internationally and by individual Third World countries; proposals for strict controls of the international

> pharmaceutical trade are pending before more than one UN body; other international agencies are drafting restrictive codes of conduct for multinational corporations; and UNESCO has proposed international restraints on the press.[6]

Especially threatening to the Foundation was the effort by the Third World to "redistribute natural resources" by

> bringing the seabed, space, and Antarctica under their control through Law of the Sea Treaty, the Agreement Governing Activities of States on the Moon and Other Celestial Bodies (called the "Moon Treaty"), and an ongoing UN study and debate over Antarctica. Malaysian Prime Minister Mahathir Bin Mohamad, the principal architect of the effort to get the UN to claim Antartica, told the General Assembly "all the unclaimed wealth of this earth" is the "common heritage of mankind," and therefore subject to the political control of the Third World.[7]

Crisis of the UN Development System

As the 1980's unfolded, the North's drive to discipline the South escalated. Taking advantage of the Third World debt crisis, the IMF and the World Bank subjected over 70 countries to structural adjustment programs, the main elements of which were radical deregulation, liberalization, and privatization. This was accompanied by a major effort to emasculate the United Nations as a vehicle for the Southern agenda. Wielding the power of the purse, the United States, whose contribution funds some 20-25 per cent of the UN budget, moved to silence NIEO rhetoric in all the key UN institutions dealing with the North-South divide: the Economic and Social Council (ECOSOC), the United Nations Development Program, and the General Assembly. US pressure resulted as well in the effective dismantling of the UN Center on Transnational Corporations, whose high quality work in tracking the activities of the TNCs in the South, had earned the ire of the TNCs. Also abolished was the post of Director-General for International Economic Cooperation and Development, which "had been one of the few concrete outcomes, and certainly the most noteworthy, of the efforts of the developing countries during the NIEO negotiations to secure a stronger UN presence in support of international economic cooperation and development."[8]

But the focus of the Northern counteroffensive was the defanging, if not dismantling of UNCTAD. After giving in to the South during the UNCTAD IV negotiations in Nairobi in 1976 by agreeing to the creation of the commodity stabilization scheme known as the Integrated Program for Commodities, the North, during UNCTAD V in Belgrade, refused the South's program of debt forgiveness and other measures intended to revive Third World economies and thus contribute to global recovery at a time of worldwide recession.[9] The northern offensive escalated during UNCTAD VIII, held in Cartagena in 1992. At this watershed meeting, the North successfully opposed all linkages of UNCTAD discussions with the Uruguay Round negotiations of the GATT and managed to erode UNCTAD's negotiation functions, thus calling its existence into question.[10]

This drastic curtailing of UNCTAD's scope was apparently not enough for certain Northern interests. For instance, the Geneva-based Independent Commission on Global Governance identified UNCTAD as one of agencies that could be abolished in order to streamline the UN system.[11] The Commission's views apparently coincided with that of Karl Theodor Paschke, head of the newly created UN Office of Internal Oversight Services, who was quoted by *Stern Magazine* as saying that UNCTAD had been made obsolete by the creation of the World Trade Organization.[12]

UNCTAD on the Defensive

During UNCTAD VIII, the North pushed to limit UNCTAD's function's to "analysis, consensus building on some trade related issues, and technical assistance."[13] But even in this limited role, UNCTAD managed during the late eighties and nineties to perform indispensable tasks for the South. Among other things, UNCTAD's research and analytical work:

- showed that structural adjustment was leading to stagnation, not to the promised growth path promised by the World Bank and the IMF;
- underlined the crippling debt overhang that made any development impossible, and thus provided the intellectual ammunition for the Jubilee campaign;
- continued to remind the world that a great cause of the crisis of Third World countries was not their lack of liberalization but the plunging prices of their raw material and agricultural exports and the continuing deterioration of the terms of trade against them;
- pointed to the tremendous potential instability posed by unregulated global financial flows and the threat posed by the liberalization of the capital accounts of developing countries;.
- emphasized the continuing critical role of activist state policies in sustaining development at a time that the reigning neoliberal ideology sought to reduce the state's role to providing the legal framework to promote the unfettered flow of goods and capital;

- underlined the many biases against developing countries of the GATT-Uruguay Round and showed how, when it came to such agreements as the Agreement on Agriculture and the Agreement on Textiles and Garments, the developed countries were not delivering on their commitments.

Together with the United Nations Development Program's *Human Development Report,* UNCTAD publications provided unassailable empirical evidence that globalization was spawning greater inequalities between and within countries. The annual *Trade and Development Report* served as a healthy antidote to the paeans to the free market and free trade coming out of World Bank and WTO publications such as the *World Bank Development Report.*

Opportunity Awaits Seizure

The collapse of the Third WTO Ministerial in Seattle provides an opportunity for UNCTAD to reclaim a central role in setting the rules for global trade and development. But this cannot be on the basis of the old paradigm and old practices that have marked the UNCTAD approach. For example, the old assumption that underlay the Prebischian model that full integration of the developing countries into the world economy is the way to prosperity must be questioned in light of the many negative consequences of globalization which have become painfully evident, including the dangers that accompany the loss of self-reliance in agricultural and industrial production owing to the volatility of the global economy, such as the erosion of food security in developing countries where agriculture focuses on export-oriented production.

This is related to the need for UNCTAD to incorporate many of the insights of ecological economics, which sees global trade, whether managed or free, as one of the key factors destabilizing the national and global environment. It must give serious consideration to the principle of subsidiarity in production and trade—that whatever can be produced locally with reasonable cost should be produced and traded locally—as a way of preserving or enhancing the health of both environment and society.

Ecological economics and feminist economics drive home the point that "efficiency" or the pursuit of reduction of unit cost—the driving value of neoclassical economics—must be questioned, if not displaced, and UNCTAD must elaborate a different paradigm that subordinates narrow efficiency to the values of social solidarity, social equity, gender equity, and environmental integrity.

UNCTAD's analysis must also move away from an overwhelming focus on international trade as the key factor in development and pay greater attention to both the economic and social measures that would allow for greater reliance on the internal market, including asset and income redistribution, such as land reform, that would create the economically empowered citizen consumers that would serve as the engine of the local economy. The indispensable and necessary links between growth, national sovereignty, and social reform must be placed at the center of trade and development policy.

The absence of serious attention to internal social reform owes itself to a simplistic North-South view of international economic relations. But equally important, UNCTAD has been too long a club of Southern governments and states that are uncomfortable at the examination of their internal political and economic arrangements. UNCTAD, in other words, must see that its constituency goes beyond governments to include, more fundamentally, their citizens. Thus, UNCTAD must not only solicit input from civil society and non-governmental organizations but also open up its decision-making processes to them.

In this regard, the words of Rubens Ricupero, UNCTAD's managing director, apply not only to the WTO but to the organization he leads. Decrying the "persisitent inability" of international organizations to engage civil society, he warns that,

> the net result is that frustration, fears, and concerns finally find expression in a confrontational and sometimes violent attitude, often leading to disruption and a feeling of confusion. There is a clear need to reach out to the concerned individuals and organizations, to offer them an opportunity to be heard by governments not only when they march and protest in the streets, to start a process of ordered and respected dialogue with those who want to debate the central issues related to trade, investment, financial crisis, job insecurity, growing inequality inside nations and among them.[14]

Moving to Center-stage

Institutional and analytical reinvigoration is essential if UNCTAD is to break out of the cage that the rich countries have fashioned for it and carve out a much more powerful role in trade and development issues. Also essential is the will and the vision to accompany this process.

In this regard, both the draft "Plan of Action" and "Bangkok Consensus" are disappointing. Both documents broadly adhere to the North's limiting UNCTAD's mandate to "research and policy analysis; consensus-building; and the provision of policy advice and technical assistance aimed primarily at capacity building."[15] Such an approach does not go beyond the "positive agenda" of the last few years, which put the emphasis on enhancing, via technical advice, the capacity of developing countries in the context of WTO negotiations. That role was essentially one of holding the hands of developing countries as they integrated into the WTO. It was also a role that led to UNCTAD being deployed as a “fixer” for the WTO in controversial issues, such as the way it was was recruited to become part of a WTO working party on investment during the Singapore Ministerial in 1996 in order to legitimize the process of bringing investment into the jurisdiction of the WTO.

What UNCTAD should be doing, in the aftermath of Seattle, is challenging the role of the WTO as the ultimate arbiter of trade and development issues. UNCTAD should instead be putting forward an arrangement where trade, development, and environment issues must formulated and interpreted by a wider body of global organizations, including UNCTAD, ILO, the implementing bodies of multilateral environmental agreements, and regional economic blocs, interacting as equals to clarify, define, and implement international economic policies.

UNCTAD, in particular, should push to become not just a forum for the discussion of policies. UNCTAD should become, as Secretary General Ricupero put it recently in Berlin, a “world parliament on globalization.”[16] But this should be a parliament with teeth, with actual legislative power and executive power in the nexus of trade, finance, development, and environment. It was under the aegis of UNCTAD that international agreements on stabilizing commodity prices and setting up a Common Fund to support countries suffering from price fluctuations for their exports were forged in the seventies. It was also negotiations carried out under the UNCTAD umbrella that led to the establishment of GSP’s or preferential systems for Third World imports. This activist, decisionmaking role is one that UNCTAD must reclaim.

There are many areas that demand UNCTAD intervention, but three in particular urgently demand broad global agreements:

- There is a crying need for such an agreement on the “Special and Differential Treatment” that must be accorded to developing countries in global trade, investment, and finance. Such an agreement would specify both positive and negative measures to protect developing economies from the perils of indiscriminate liberalization, support their efforts to develop or industrialize through the use of trade and investment policy, and secure their preferential access to Northern markets. Such a UNCTAD-sponsored agreement would serve as overarching convention that would guide the actions of the WTO, IMF, European Union and all other major international economic actors.
- UNCTAD could also play a key role in addressing the critical nexus of trade and environment. Together with the UN Environmental Programand UNDP, UNCTAD could lead in drafting an agreement specifying broad but binding guidelines and a pluralistic mechanism, involving civil society actors, that would judge on the conflicting claims of the WTO, multilateral environmental

agreements, governments, and NGOs.

- In light of the failure of the G-7 to seriously respond to the crying need for a reformed global financial , UNCTAD should seize leadership in this area and forge an agreement among its 180-plus member countries that would put such a system in place. Such a system could involve Tobin taxes, regional capital controls, and national capital controls, and a pluralistic set of regulatory institutions—innovations that are necessary for global financial stability but which are resisted by the banks, hedge funds, the IMF, and the US Treasury Department.
- UNCTAD could also lead in forging a "New Deal" for agriculture in developing countries. The emphasis of such a convention would not be the integration of agriculture into world trade but the integration of trade into a development strategy that will put the emphasis on raising incomes and employment in the agricultural sector, achieving food security through a significant degree of food self-sufficiency, and promoting ecologically sustainable production

UNCTAD in a Pluralistic System of Global Economic Governance

All this is not to suggest replacing the WTO and the IMF with UNCTAD. But it does mean UNCTAD taking an active role in a process of reducing the powers of the WTO and the IMF.

It is not surprising that both the WTO and IMF are currently mired in a severe crisis of legitimacy. Both are highly centralized, highly unaccountable, highly non-transparent global institutions that seek to subjugate, control, or harness vast swathes of global economic, social, political, and environmental processes to the needs and interests of a global minority of states, elites, and TNCs. The dynamics of such institutions clash with the burgeoning democratic aspirations of peoples, countries, and communities in both the North and the South. The centralizing thrust of these institutions clash with the efforts of communities and nations to regain control of their fate and achieve a modicum of security by deconcentrating and decentralizing economic and political power. In other words, these are Jurassic institutions in an age of participatory political and economic democracy.

UNCTAD may not have the material resources of these institutions, but it has something that the billions of dollars of the World Bank and IMF could not buy: legitimacy among developing countries.

A vigorous UNCTAD that competes in the process of defining global rules for trade, finance, investment, and sustainable development is essential in a pluralistic global economic regime where global institutions, organizations, and agreements complement as well as check one another. It is in such a more fluid, less structured, more pluralistic world with multiple checks and balances that the nations and communities of the South will be able to carve out the space to develop based on their values, their rhythms, and the strategies of their choice. UNCTAD has a critical contribution to make in the emergence of such a system of global governance.

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[1] See, among other works, *A New Trade Policy for Development* (NY: UNCTAD, 1964).

[2] Bernard Nossiter, *The Global Struggle for More* (New York: Harper and Row, 1987), pp. 42-43.

[3] *Ibid.,* p. 45.

[4] Alfred Maizels, "Reforming the World Commodity Economy," in Michael Cutajar, ed., *UNCTAD and the North-South Dialogue* (New York: Pergamon Press, 1985, p. 108; United Nations, *World Economic Survey* (New York: United Nations, 1988), p. 42

[5]Doug Bandow, "The US Role in Promoting Third World Development," in Heritage Foundation, *US Aid to the Developing World: A Free Market Agenda* (Washington: Heritage Foundation, 1985), p. xxii.

[6]*Ibid.,* p. xxiv

[7] *Ibid.,* pp. Xxiii-xxiv.

[8] Adams, p. 43.

[9] South Commission, *The Challenge to the South* (New York: Oxford University Press, 1991), p. 217.

[10] Myriam Van der Stichele, "World Trade—Free Trade for Whom, Fair for Whom?," in Childers, p. 69.

[11] "South Decries Moves to Close UNCTAD, UNIDO," *Third World Resurgence,* No. 56, p. 41.

[12] *Ibid.*

[13] *Ibid.*

[14] Quoted in UNCTAD X-"World Parliament on Globalization?", SUNS, No. 4584, Jan. 14, 2000.

[15] Ninth Ministerial Meeting of the Group of 77 and China, "Draft Bangkok Consensus," Marrakech, Morocco, Sept. 13-16, 1999.

[16] Quoted in "UNCTAD X- "World Parliament on Globalization?", SUNS, No. 4584, Jan. 14, 2000.

Jurassic Fund: Should Developing Countries Push to Decommission the IMF?

By : *Walden Bello**

(This is an expanded version of the author's column in the *Far Eastern Economic Review* on Dec. 6, 1999.)

When the International Monetary Fund, in a surprise announcement at the World Bank-IMF annual meeting at the end of September 1999, announced that henceforth it would put "poverty reduction" at the center of its approach toward developing countries, there was widespread speculation among Washington watchers that Michel Camdessus's days as Managing Director were numbered.

Indeed, Camdessus resigned in mid-November 1999, shortly after Larry Summers, the new US Secretary of the Treasury and one of Camdessus biggest backers, told the US Congress that henceforth, the US would support a "new framework for providing international assistance to [developing] countries—one that moves beyond a closed IMF-centered process that has too often focused on narrow macroeconomic objectives at the expense of broader human development."[1]

The Frenchman's 13-year reign had been identified with a paradigm of development that he fervently believed in: structural adjustment. In the two decades since 1980, structural adjustment programs (SAPs) were imposed jointly by the World Bank and the IMF on close to 90 developing countries, from Guyana to Ghana. Despite important differences among the various economies, SAPs had the same basic elements: long term "structural" reforms to deregulate the economy, liberalize trade and investment, and privatize state enterprises, coupled with short-term stabilization measures like cutbacks in government expenditures, high interest rates, and currency devaluation. SAPs multiplied during the Third World debt crisis of the early 1980's, and an important reason was strong pressure from the Bank and IMF on governments to restructure their economies along lines designed to yield the financial resources to pay off their massive debts to the international commercial banks. But the objective of SAPs went beyond debt repayment or the attainment of short-term macroeconomic stability. The Bank and the Fund sought nothing less than the dismantling of protectionism and other policies of state-assisted capitalism that IMF and World Bank theorists judged to be the main obstacles to sustained growth and development.

When the socialist economies of Eastern Europe and Russia collapsed in the early 1990's, structural adjustment was also extended to that part of the world, and in a manner that was even more radical than in the South—a process that Harvard's Jeffrey Sachs, then one of its vocal proponents, appropriately labeled "shock therapy." IMF technocrats went to these countries with even more dogmatic confidence in their one true model than the Marxist bureaucrats they supplanted had in theirs. By the early 1990's, shock therapy and structural adjustment had become cornerstones of what economist John Williamson called "the Washington Consensus" on the desired macroeconomic framework that would create a truly global economy fueled by market forces.

Retreat

Two decades after the first structural adjustment loan, the Bank has formally abandoned structural adjustment, replacing it with the "Comprehensive Development Framework." The new paradigm, according to a statement of the Group of Seven Finance Ministers and Central Bank Governors,[2] has the following elements:

- "increased and more effective fiscal expenditures for poverty reduction with better targeting of budgetary resources, especially on social priorities in basic education and health;
- "enhanced transparency, including monitoring and quality control over fiscal expenditures;
- "stronger country ownership of the reform and poverty reduction process and programs, involving public participation;
- "stronger monitorable performance indicators for follow-through on poverty reduction; and
- "ensuring macroeconomic stability and sustainability, and reducing barriers to access by the poor to the benefits of growth."

What brought about the 180 degree turn?

Failure. Spectacular failure that could no longer be denied at the pain of totally losing institutional credibility.

The World Bank—or rather James Wolfensohn, President Bill Clinton's nominee to head the Bank in 1993—was the first to recognize that something was amiss. Coming from outside orthodox development circles, Wolfensohn sensed what most World Bank officials did not want to acknowledge: that with over a 100 countries under adjustment for over a decade, it was strange that the Bank and the Fund found it hard to point to even a handful of success stories. In most cases, as Rudiger Dornbusch of the Massachusetts Institute of Technology put it, structural adjustment caused economies to "fall into a hole,"[3] wherein low investment, reduced social spending, reduced consumption, and low output interacted to create a vicious cycle of decline and stagnation, rather an a virtuous circle of growth, rising employment, and rising investment, as originally envisaged by World Bank-IMF theory.

With much resistance from the Bank's entrenched bureaucracy, Wolfensohn moved to slowly distance the Bank from hard-line adjustment policies and even got some of his staff to (grudgingly) work with civil society groups to assess SAPs in the so-called "Structural Adjustment Review Initiative" (SAPRI). For the most part, however, the change of attitude did not translate to changes at the operational level owing to the strong internalization of the structural adjustment approach among Bank operatives.

While self-doubt began to engulf the Bank, the IMF, in contrast, plowed confidently on, and the lack of evidence of success was interpreted to mean simply that a government lacked political will to push adjustment. Through the establishment of the Extended Structural Adjustment Facility (ESAF), the Fund sought to fund countries over a longer period in order to more fully institutionalize the desired free-market reforms and make them permanent.

The Philippine Case

The Philippines', together with Turkey and Costa Rica, was one of the guinea pigs of structural adjustment. Its experience under adjustment was representative of the Third World experience. Between 1980 and 1999, the Philippines became the recipient of nine structural adjustment loans from the World Bank, and participated in three standby programs, two extended fund programs, and one precautionary standby arrangement with the IMF.[4] The country, in short, was in continuous adjustment for nearly 20 years, its macroeconomic policies being micromanaged by the Bretton Woods twins.

The first phase of adjustment, which focused on trade liberalization, saw quantiative restrictions removed on more than 900 items, while the nominal average tariff protection was brought down from 43 per cent in 1981 to 28 per cent in 1985. But the program failed to factor in the onset of a global recession, so that instead of rising, exports fell, while imports coming in to take advantage of the liberalized regime severely eroded the home industries. As the late economist Charles Lindsay noted, "Whatever the merits of the SAL, its timing was deplorable." [5] Instead of allowing the government to set in motion countercyclical mechanisms to arrest the decline of private sector activity, the structural adjustment framework intensified the crisis with its policy of high interest rates and tight government budgets. Not surprisingly, the GNP shrank precipitously two years in a row, contributing to the political crisis that resulted in the ouster of Ferdinand Marcos in February 1986.

Under Corazon Aquino the second phase of adjustment saw economic recovery subordinated to the repayment of the foreign debt of the country's $26 billion foreign debt. This was achieved via fiscal austerity and more intensified export of natural resources and export-oriented production. A financial hemorrhage ensued, with the net transfer of financial resources coming to a negative $1.3 billion a year on average between 1986 and 1981, according to the Freedom from Debt Coalition.[6] To service the debt, the Aquino administration was forced to borrow heavily from domestic financial sources, forcing it to channel much of its budgetary expenditures from development and social spending to meeting both domestic and foreign debt obligations. By 1987, some 50 per cent of the budget was going to service the national debt.[7]

Not surprisingly, this "model debtor" via structural adjustment institutionalized stagnation, with the country registering zero average GNP growth between 1983 and 1993. Stagnation led to a worsening of social conditions, with families living under the poverty line coming to 46.5 per cent of all families in 1991 and the share of the national income going to the lowest 20 per cent of families dropping from 5.2 per cent in 1985 to 4.7 in 1991.[8] The Philippines also provided one of the best documented studies of the correlation between environmental destruction and structural adjustment, with a World Resources Institute study concluding that adjustment "created so unemployment that migration patterns changed drastically. The large migration flows to Manila declined, and most migrants could only turn to open access forests, watersheds, and artisanal fisheries. Thus the major environmental effect of the economic crisis was overexploitation of these vulnerable resources."[9]

When the Ramos administration took over in 1992, the focus of adjustment shifted back to accelerated privatization, deregulation, and liberalization of trade, investment, and finance. Petron and several government enterprises and services passed to the private sector; a substantially free trade regime was targetted for 2004, when tariff rates would be reduced to a uniform five per cent or less for all products; and nationality restrictions on foreign investment were relaxed considerably. Capital account liberalization, an IMF prescription, resulted in massive inflows of speculative capital into the financial and real estate sector, triggering an artificial boom in Manila. But the liberalized capital account also became the wide highway through which billions of dollars exited in 1997 and 1998, at the onset of the Asian financial crisis, bringing the GDP growth rate to below zero in 1998.[10]

Adjusted and readjusted for nearly 20 years, Manila simply could not climb out of a deepening hole.

Crisis of Legitimacy

It was the Asian financial crisis that finally forced the IMF to confront reality. In 1997-98 the Fund moved with grand assurance into Thailand, Indonesia, and Korea, with its classic formula of short-term fiscal and monetary policy cum structural reform in the direction of liberalization, deregulation, and privatization. This was the price exacted from their governments for IMF financial rescue packages that would allow them to repay the massive debt incurred by their private sectors. But the result was to turn a conjunctural crisis into a deep recession, as government's capacity to counteract the drop in private sector activity, was destroyed by budgetary and monetary repression. [11] If some recovery is now discernible in a few economies, this is widely recognized as coming inspite of rather than because of the IMF.

For a world that had long been resentful of the Fund's arrogance, this was the last straw. In 1998-99, criticism of the IMF rose to a crescendo and went beyond its stubborn adherence to structural adjustment and its serving as a bailout mechanism for international finance capital to encompass accusations of its being non-transparent and non-accountable. Its vulnerable position was exposed during the recent debate in the US Congress over a G-7 initiative to provide debt relief to 40 poor countries. Legislators depicted the IMF as the agency that caused the debt crisis of the poor countries in the first place, and some called for its abolition within three years. Said Rep. Maxine Walters: "Do we have to have the IMF involved at all? Because, as we have painfully discovered, the way the IMF works causes children to starve."[12]

In the face of such criticism from legislators in the IMF's most powerful member, US Treasury Secretary Larry Summers claimed that the IMF-centered process would be replaced by "a new, more open and inclusive process that would involve multiple international organizations and give national policymakers and civil society groups a more central role."[13] .

But Is this for Real?

So structural adjustment is dead, and the Bretton Woods institutions have seen the light. But wait, isn't there something too easy about all this?

The fact is, in the case of the IMF, as well as that of the World Bank and the Asian Development Bank (ADB), jettisoning the paradigm of structural adjustment has left them adrift, in the view of many critics, with just the rhetoric and broad goals of reducing poverty, but without an innovative macroeconomic approach. Wolfensohn and his ex-chief economist Joseph Stiglitz talk about "bringing together" the "macroeconomic" and "social" aspects of development, but Bank officials cannot point to a larger strategy beyond increasing lending to health, population, nutrition, education, and social protection to 25 per cent of the Bank's total lending. The ADB is even more of a newcomer in the anti-poverty approach, and its strategy paper issued this year is long on laudable goals but, even ADB insiders agree, breaks no new ground in terms of macroeconomic innovation. Most at sea are IMF economists, some of whom openly admitted to NGO representatives at the September IMF-World Bank meeting that so far the new approach was limited to relabeling the Extended Structural Adjustment Fund (ESAF) the "Poverty Reduction Facility, and that they were looking to the World Bank to provide leadership.[14]

It is not surprising that, in these circumstances, the old framework would reassert itself, with, for example, the IMF telling the Thai government, already its most obedient pupil, to cut its fiscal deficit despite a very fragile recovery; the Fund's pushing Indonesia to open its retail trade to foreign investors, despite the consequences in terms of higher unemployment; and technocrats of the ADB making energy loans and Miyazawa funding contingent on the Philippine government's accelerating the IMF-promoted privatization of the National Power Corporation, despite the fact that consumers are lilely to end up paying more to the seven private monopolies that will succeed the state enterprise.

"It's the old approach of deregulation, privatization, and liberalization but with safety nets" is the not inappropriate description of one Filipino labor leader much consulted by the multilateral institutions.[15]

Then, there is the issue of accountability. One cannot just walk away from the scene of the crime without admitting wrongdoing. The Bank and the Fund have been responsible for tremendous economic and social damage wrought on Third World economies for over two decades. Shouldn't they be held to account for that? Should not Camdessus and the whole top leadership of the IMF, including his deputy Stanley Fischer and Asia-Pacific division chief Hubert Neiss, who blindly embraced adjustment to the end, take responsibility for their massive blunders? Despite their announced resignations, both Camdessus and Neiss are unrepentant when it comes to their policies.

Many of the Fund's long-time critics have a darker view of things. To them, Camdessus served as a sacrificial lamb to blunt real efforts at reform at a time that the Fund "desperately needs" credibility and legitimacy, as the *Financial Times* put it.[16] This fear is well-grounded, for in his most recent statements, Larry Summers, the pivotal figure when it comes to the future of the IMF, appears to have forgotten about the need for a paradigm shift. When speaking about the elements of a "new" IMF strategy, Summers says that the "approach looks to the IMF to continue to certify that a country's macro-economic policies are satisfactory before debt is relieved of new concessional lending is advanced."[17] Is this what is meant by "moving away from an IMF-centered process that has too often focused on narrow macroeconomic objectives at the expense of broader human development"?[18]

Bearing in mind that trade liberalization was one of the most controverial dimensions of the old structural adjustment approach, even more revealing is Summers' view that the new IMF must have as one of its priorities "strong support for market opening and trade liberalization."[19] Trade liberalization, Summers continues, "is often a key component of IMF arrangements. In the course of negotiations, the IMF has sought continued compliance with existing trade obligations and further commitments to market opening measures as part of a strategy for spurring growth. For example: As part of its IMF program, Indonesia has abolished import monopolies for soybeans and wheat; agreed to phase out all non-tariff barriers affecting imports; dissolved all cartels for plywood, cement and paper; removed restrictions on foreign investment in the wholesale and resale trades; and allowed foreign banks to buy domestic ones. Zambia's 1999 program with the IMF commits the government to reducing the weighted average tariff on foreign goods to 10 per cent, and to cutting the maximum tariff from 25 per cent to 20 per cent by 2001. In July, the import ban on wheat flour was eliminated."[20]

Calling this a "new approach" is, let us face it, stretching the truth.

Radical Reform or Decommissioning?

Now what would a real process of transfromation look like? It would be something that would include more than the open selection process for the new managing director—one that would open the recruitment process to non-Europeans—endorsed by Jeffrey Sachs.[21] For the problem lies in the very structure and culture of the institution: a lack of accountability except to the US Treasury Department; a belief in non-transparency as a condition for effectiveness; and a deeply ingrained elitism that renders the bureaucracy incapable of learning from outsiders.

If this is the heart of the matter, then surgery must be more radical. I would propose the following measures:

- First, so embedded is the old adjustment framework in current programs that a clean break with the past can only take place not just with a renaming but with the immediate dismantling of all structural adjustment programs in the Third World and the ex-socialist world and the IMF adjustment programs imposed on Indonesia, Thailand, and Korea following the Asian financial crisis.
- Second, immediate reduction of the IMF professional staff from over 1000 to 200, and major cuts in both capital expenditures and operational expenses of the agency. Most of the Fund's economists are today employed in micromanaging adjust ment programs and would definitely cease to be necessary if, as the G-7 Finance Ministers and Central Bank governors suggest, developing countries be given more authority in formulating and implementing their poverty reduction programs; and if, as Jeffrey Sachs advises, the Fund's main work is limited to monitoring world capital markets and the world's monetary system.[22]

- Third and most important is the creation of a Global Commission on the Future of the IMF to decide if the Fund is to be reformed along the lines suggested by Sachs and others or, to borrow a phrase applied to aging nuclear plants, it is to be decommissioned, which this author favors. Half of the members of such a body should come from civil society organizations since it is these groups that were instrumental in bringing to light the destructive impact of adjustment programs and are now engaged in many of the most innovative experiments in grassroots social development. Energy from below and decentralized operations are the trademarks of so many successful organizations that the top-down centralized IMF looks positively Jurassic.

With its credibility and legitimacy in tatters, the Fund is in severe crisis. Unless international civil society intervenes, and intervenes forcefully now, the powers that be will wait for the storm to blow over while talking, as Larry Summers does, about reform. Radical reform or decommissioning? That is the question of the hour around which we must frame our strategies for intervention.

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[1] Op-ed piece in *Washington Post,* reproduced in *Today* (Manila), Nov 15, 1999.

[2] Communique, Sept. 25, 1999.

[3] Rudiger Dornbusch, quoted in Jacques Polak, "The Changing Nature of IMF Conditionality," *Essays in International Finance,* Princeton University, No. 184 (Sept. 1991),p. 47.

[4] Data from Freedom from Debt Coalition (Philippines).

[5] Charles Lindsey, "the Political Economy of Economic Policy Reform in the Philippines: Continuity and Restoration," in Andrew MacIntyre and Kanishka Jayasuriya, eds., *The Dynamics of Economic Policy Reform in Southeast Asia and the Southwest Pacific* (Singapore: Oxford University Press, 1992).

[6] Freedom from Debt Coalition, "Revisiting Philippine Debt," Paper presented at the National Debt Conference, Innotech, Commonwealth Avenue, Oct. 9-10, 1997.

[7] Freedom from Debt Coalition, *Primer on Philippine Debt* (Quezon City: FDC, 1997).

[8] Leonor Briones and Jenina Joy Chavez-Malaluan, "New Social and Political Challenges within the Framework of the Structural Adjustment Process in Southeast Asia (with Focus on the Philippines): Effects
on New Population Trends and Quality of Life," Paper prepared for the Population and Quality of Life Independent Commission, Manila, May 1994, unpublished.

[9] Wifredo Cruz and Robert Repetto, *The Envrionmental Effects of Stabilization and Structural Adjustment* (Washington, DC: World Resources Institute, 1992), p. 48.

[10] See Walden Bello, *Addicted to Capital: the Ten-Year High and Present-Day Withdrawal Trauma of Southeast Asia's Economies* (Bangkok: Focus on the Global South, 1997).

[11] See Nicola Bullard, Walden Bello, and Kamal Malhotra, *Taming the Tigers: The IMF and the Asian Crisis* (Bangkok: Focus on the Global South, 1998).

[12] Quoted in AP, reproduced in *Business World,* Nov. 15, 1999.

[13] Op-ed, *Washington Post,* reproduced in *Today,* Nov. 15, 1999.

[14] Personal communication, Ted Van Hees of Eurodad, New York, Nov. 1, 1999.

[15] Comment of Luis Corral, political affairs director of TUCP, Nov. 6, 1999.

[16] "The IMF's New Leader," *FinancialTimes,* Nov. 18, 1999, p. 16.

[17] Treasury Secretary Larry Summers, "the Right Kind of IMF for a Stable Global Financial System," Remarks to the London School of Business, London, England, Dec. 14, 1999.

[18] Op-ed piece in *Washington Post,* reproduced in *Today,* Nov. 15, 1999.

[19] Treasury Secretary Larry Summers, Testimony before the US Senate Committee on Foreign Relations, Washington, DC, Nov. 5, 1999.

[20] *Ibid.*

[21] Jeffrey Sachs, "Time to End the Backroom Poker Game," *Financial Times,* Nov. 15, 1999.

[22] *Ibid.*

The Iron Cage:
The WTO, the Bretton Woods Institutions, and the South*

By : *Walden Bello***

The World Trade Organization (WTO) is a multilateral body that elicits fear, anger, and exasperation throughout the South. This, despite the oft-repeated claim by WTO apologists that by providing a set of rules and dispute settlement mechanisms for global trade, the organization protects the weaker and poorer countries from unilateralist actions by the stronger ones. This Southern view stems from a strong sense that the WTO is essentially an institution that is deeply biased against the development of the South. This attitude was recently epitomized for many by the resistance of key Northern countries led by the United States to the appointment of Thai Deputy Prime Minister Supachai Panitchpakdi as director general of the organization.

This Southern attitude toward the WTO can best be appreciated if the emergence of the institution is placed in the context of the South's struggle for development over the last 50 years. For situated in this broad historical canvas, the Uruguay Round Agreement of 1994 emerges not so much as the triumph of enlightened free trade over benighted protectionism but, more importantly, as the culminating point of a campaign of global economic containment of the legitimate aspirations to development on the part of Third World countries.

Earlier milestones in this process were the reorientation of the World Bank toward managing development in the South in the late fifties, the IMF's being turned into the

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watchdog of the external economic relations of Third World countries in the 1970s, the universalization of structural adjustment in the 1980s, and the unilateralist trade campaign waged against the Asian "tiger economies" by Washington beginning in the early eighties.

This is, of course, not to say that the struggle between advanced industrial countries, which revolved around the issue of free trade or protection, was not a central driving force for the establishment of the WTO. It definitely was. It is to assert, however, that containing the South was an equally key dynamic that intersected crucially with the fight for markets among the developed countries.

Emergence of the Southern Agenda

The place to begin this analysis is the period of decolonization in the 1950's and 1960's. The emergence of scores of newly independent states took place in the politically charged atmosphere of the Cold War, but although they were often split between East and West in their political alliances, Third World countries gravitated toward an economic agenda that had two underlying thrusts: rapid development and a global redistribution of wealth.

While the more radical expression of this agenda in the shape of the Leninist theory of imperialism drew much attention and, needless to say, condemnation in some quarters, it was the more moderate version that was most influential in drawing otherwise politically diverse Third World governments into a common front. This was the vision, analysis, and program of action forged by Raul Prebisch, an Argentine economist who, from his base at the United Economic Commission for Latin America (CEPAL), won a global following with his numerous writings.

Developed in the late 1950's and early 1960's, Prebisch's theory centered on the worsening terms of trade between industrialized and non-industrialized countries, an equation which posited that more and more of the South's raw materials and agricultural products were needed to purchase fewer and fewer of the North's manufactured products. Moreover, the trading relationship was likely to get worse since Northern producers were developing substitutes for raw materials from the South, and Northern consumers, according to Engels' Law, would spend a decreasing proportion of their income on agricultural products from the South.[1]

Known in development circles as "structuralism," Prebisch's theory of "bloodless but inexorable exploitation," as one writer described it,[2] served as the inspiration for

[1] See, among other works, *Towards a New Trade Policy for Develo2pment* (New York: UNCTAD, 1964).

[2] Bernard Nossiter, *The Global Struggle for More* (New York: Harper and Row, 1987), pp. 42-43.

Third World organizations, formations, and programs which sprang up in the 1960's and 1970s, including the Non-Aligned Movement, Group of 77, Organization of Petroleum Exporting Countries (OPEC), and the New International Economic Order (NIEO). It was also central to the establishment of the UN Conference on Trade and Development (UNCTAD) in 1964, which became over the next decade the principal vehicle used by the Third World countries in their effort to restructure the world economy.

With Prebisch as its first Secretary General, UNCTAD advanced a global reform strategy with three main prongs. The first was commodity price stabilization through the negotiation of price floors below which commodity prices would not be allowed to fall. The second was a scheme of preferential tariffs, or allowing Third World exports of manufactures, in the name of development, to enter First World markets at lower tariff rates than those applied to exports from other industrialized countries. The third was an expansion and acceleration of foreign assistance, which, in UNCTAD's view, was not charity but "compensation, a rebate to the Third World for the years of declining commodity purchasing power."[3] UNCTAD also sought to gain legitimacy for the Southern countries' use of protectionist trade policy as a mechanism for industrialization and demanded accelerated transfer of technology to the South.

To a greater or lesser degree, the structuralist critique came to be reflected in the approaches of other key economic agencies of the United Nations secretariat, such as the Economic and Social Council (ECOSOC) and the United Nations Development Program (UNDP), and it became the dominant viewpoint among the majority at the General Assembly.

The Bretton Woods Institutions Focus on the South

The response of the leading countries of the North to the challenge of economic decolonization posed by the emerging countries was conditioned by, among others, several developments. Most important of these was the Cold War. The priority of the political enterprise of containing the Soviet Union and Communism pushed the North, particularly the US government, to a less hardline stance when it came to the question of whether the economic structures of its client countries conformed to free-market principles. While the US upheld private enterprise and demanded access for its corporations, it was more tolerant when it came to protectionism, investment controls, and a strong role for government in managing the economy. It also veered away from a classic exploitative stance to promote at least the image of supporting limited global

[3] *Ibid.,* p. 45.

redistribution of wealth, this being accomplished mainly through foreign aid.

As the emerging countries gravitated toward the UN system, the leading governments increasingly relied on the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to push their agenda.

The Bretton Woods institutions, founded in 1944, began with missions quite distinct from their latter-day involvement with North-South relations. The IMF was conceived by John Maynard Keynes and Harry Dexter White, the two pillars of the Bretton Woods meeting, as the guardian of global liquidity, a function that it was supposed to fulfil by monitoring member countries' maintenance of stable exchange rates and providing facilities on which they could periodically draw to overcome cyclical balance of payments difficulties. The International Bank for Reconstruction and Development, on the other hand, was, as its name implied, set up to assist in the reconstruction of the war-torn economies, particularly those of Western Europe, by lending to them at manageable rates of interest.

By the early 1970s, however, President Nixon's taking the dollar off the gold standard had inaugurated a new era of floating exchange rates that made the IMF's original mission superfluous. Instead, the Fund was deeply involved in stabilizing Third World economies with balance of payments difficulties. As for the World Bank, it had evolved into the prime multilateral development agency for aid and development.

In the case of the World Bank, a turning point of sorts was the debate triggered by the 1951 report of a group of experts entitled "Measures for the Economic Development of Under-Developed Countries," which proposed making grant aid available to Third World countries.[4] Using this as a springboard, Third World countries at the General Assembly tried to push through resolutions that would establish "Sunfed," the Special UN Fund for Economic Development, which would be controlled not by the North but by the UN and whose criterion for providing loans would not be narrow banking rules but development need.

The North, led by the United States, strenuously resisted these efforts, resorting at first to delay and diversion, like proposing the creation of a $100 million fund to be used to finance an investment survey that the IBRD or some other Western agency would undertake.[5] But when diversion and delay failed to derail the South's drive to set up Sunfed, the North came out with an alternative: an institution for making soft loans for development from capital subscribed by the North but one controlled by the North rather than the Third World majority at the United Nations. Thus came into being the International Development Association (IDA), which was attached to the World Bank, as

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[4] Nassau Adams, "The UN's Neglected Brief—'The Advancement of All Peoples'", in Erskine Childers, *Challenges to the UN* (New York: St. Martin's Press), p. 31.

[5] Nossiter, p. 34.

the latter's soft-loan window. As one analyst of this period has pointed out:

> Much of the impetus for IDA came from the bank itself, increasingly worried over Southern demands for a competing UN fund. Eugene R. Black, the bank's shrewd president, said bluntly "the International Development Association was really an idea to offset the urge for Sunfed." Black, like any other banker, had little use for soft loans. But if anybody would make them, he reasoned, it had better be the bank. If new business was to be done, Black wanted to do it.[6]

The IDA was part of a compromise package that effectively killed the idea of a UN-controlled development fund. The other part of the package was the establishment of the UN Special Fund, later renamed the UN Development Program, which served as the channel of much smaller quantities of mainly technical aid to Third World countries.[7]

The IDA-UNDP compromise derailed the demand for a UN-controlled agency, but it did not stop the escalation of Third World demands for a redistribution of global economic power, a process which resulted in the establishment of UNCTAD in 1964, attained dramatic results with the Organization of Petroleum Exporting Countries' (OPEC) ability to seize control of the pricing of oil in the early and mid-1970s, and culminated with the adoption by the UN General Assembly Special Session of 1974 of the program of the "New International Economic Order." The thrust of these moves was clearly reformist rather than revolutionary, expressing demands of Third World elites rather than Third World masses. Nevertheless, their prominence in the context of successful struggles waged by revolutionary movements in Vietnam and other Third World countries lent a note of urgency to Washington's search for an effective counter-strategy of managed reform.

The Southern Challenge in the 1970s

In the 1970s, the World Bank was to be the centerpiece of liberal Washington's response, and Robert McNamara, who was appointed, in 1968, the World Bank's president after his troubled stint at the US Defense Department, became the pointman in the expanded liberal approach. The McNamara approach had several elements. First was a massive escalation in the World Bank's resources, with McNamara raising World Bank lending from an average of $2.7 billion a year when he took office in 1968 to $8.7 billion in 1978 to $12 billion by the time he left office in 1981. Second was a global program aimed at ending poverty via a program that sought to sidestep the difficult problems

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[6] *Ibid.,* p. 35.

[7] Adams, "The UN's Neglected Brief," p. 31.

associated with social reform by focusing aid on improving the "productivity of the poor." Third was an effort to split the South by picking a few countries as "countries of concentration" to which the flow of bank assistance would be higher than average for countries of similar size and income.

The rise of OPEC, however, made World Bank aid and foreign aid less critical to many of the leading countries in UNCTAD and the Group of 77 in the mid-1970s, since they could gain access to massive quantities of loans that the commercial banks were only too happy to make available in their effort to turn a profit on the billions of dollars of deposits made to them by the OPEC countries.

Instead of aid, UNCTAD focused on changing the rules of international trade, and in this enterprise it registered some successes. During the fourth conference of UNCTAD (UNCTAD IV) in Nairobi in 1976, agreement was reached, without dissent from the developed countries, on the Integrated Program for Commodities (IPC). The IPC stipulated that agreements for 18 specified commodities would be negotiated or renegotiated with the principal aim of avoiding excessive price fluctuations and stabilizing commodity prices at levels remunerative to the producers and equitable to consumers. It was also agreed that a Common Fund would be set up that would regulate prices when they either fell below or climbed too far above the negotiated price targets.

UNCTAD and Group of 77 pressure was also central to the IMF's establishing a new window, the Compensatory Financing Facility (CFF), which was meant to assist Third World countries in managing foreign exchange crises created by sharp falls in the prices of the primary commodities they exported. Another UNCTAD achievement was getting the industrialized countries to accept the principle of preferential tariffs for developing countries. Some 26 developed countries were involved in 16 separate "General System of Preferences" schemes by the early 1980s.

These concessions were, of course, limited. In the case of commodity price stabilization, it soon became apparent that the rich countries had replaced a strategy of confrontation with a Fabian, or evasive, strategy of frustrating concrete agreements. A decade after UNCTAD IV, only one new commodity stabilization agreement, for natural rubber, had been negotiated; an existing agreement on cocoa was not operative; and agreements on tin and sugar had collapsed.[8]

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[8] Alfred Maizels, "Reforming the World Commodity Economy," in Michael Cutajar, ed., *UNCTAD and the North-South Dialogue* (New York: Pergamon Press, 1985, p. 108; United Nations, *World Economic Survey* (New York: United Nations, 1988), p. 42

Right wing Reaction and the Demonization of the South

By the late seventies, however, even such small concessions were viewed with alarm by increasingly influential sectors of the U.S. establishment. Such concessions within the UN system were seen in the context of other developments in North-South relations, which appeared to show that the strategy of liberal containment spearheaded by the Bank in the area of economic relations had not produced what it promised to deliver: security for Western interests in the South through the co-optation of Third World elites.

While professing anti-communism, governing elites throughout the Third World, which were the backbone of the UNCTAD system, gave in to popular pressure, abetted by local industrial interests, to tighten up on foreign investment. Nowhere did this trend spark more apprehension among American business people than in two countries which were considered enormously strategic by US multinational firms. In Brazil, where foreign-owned firms accounted for half of total manufacturing sales,[9] the military-technocrat regime, invoking national security considerations, moved in the late 1970s to reserve the strategic information sector to local industries, provoking bitter denunciation from IBM and other US computer firms.[10] In Mexico, where foreign firms accounted for nearly 30 per cent of manufacturing output,[11] legal actions and threats of disinvestment by the powerful US drug industry followed the government's program for the pharmaceutical industry, which proposed no-patent policies, promotion of generic medicines, local development of raw materials, price controls, discriminatory incentives for local firms, and controls on foreign investment.[12]

Disturbing though these concessions and actions were, they could not compare in their impact with OPEC's second "oil shock" in 1979. Despite the fact that the western oil companies were passing on the oil price increases to consumers in order to preserve their enormous profit margins, to many Americans OPEC became the symbol of the South: an irresponsible gang that was bent on using its near monopoly over a key resource in order to bring the West to its knees. Although OPEC was not dominated by communists or radical nationalists like Libya's Khadafy but by US allies such as Saudi Arabia, Kuwait, and Venezuela, its "oil weapon" evoked more apprehension that the nuclear arms of the Soviet Union. Indeed, the oil cartel was feared as the precursor of a

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[9]Karin Lissakers, *Banks, Borrowers, and the Establishment: A Revisionist Account of the International Debt Crisis* (New York: Basic Books, 1991), p. 56.

[10] Eduardo White, "The Question of Foreign Investments and the Economic Crisis of Latin America," in Richard Feinberg and Ricardo Ffrench-Davis, eds., *Development and External Debt in Latin America: Bases for a New Consensus* (Notre Dame, Indiana: University of Notre Dame Press, 1988), pp. 157-158.

[11]Lissakers, p. 56

[12]White, p. 158

unified Southern bloc controlling most strategic commodities, and right-wing propagandists would point to the Algiers Declaration of the Non-Aligned Movement in 1973 in their efforts to fan fear and loathing in the North:[13]

> The Heads of State or Government recommend the establishment of effective solidarity organizations for the defense of the raw materials producing countries such as the Organization of Petroleum Export Countries...to recover natural resources and ensure increasingly substantial export earnings.

Targetting the UN System

The United Nations system was a central feature of the demonology of the South that right-wing circles articulated in the late seventies and early eighties. In their view, the UN had become the main vehicle for the South's strategy to bring about the New International Economic Order. As the right-wing think tank Heritage Foundation saw it, the governments of the South devoted "enormous time and resources to spreading the NIEO ideology throughout the UN system and beyond. Virtually no UN agencies and bureaus have been spared."[14] The South's effort to redistribute global economic power via UN mechanisms was viewed as a concerted one:

> Private business data flows are under attack internationally and by individual Third World countries; proposals for strict controls of the international pharmaceutical trade are pending before more than one UN body; other international agencies are drafting restrictive codes of conduct for multinational corporations; and UNESCO has proposed international restraints on the press.[15]

Especially threatening to the Foundation was the effort by the Third World to "redistribute natural resources" by

> bringing the seabed, space, and Antarctica under their control through Law of the Sea Treaty, the Agreement Governing Activities of States on the Moon and Other Celestial Bodies (called the "Moon Treaty"), and an ongoing UN study and debate over Antarctica. Malaysian Prime Minister Mahathir Bin Mohamad, the principal architect of the effort to get the UN to claim Antartica, told the General Assembly "all the unclaimed wealth of this earth" is the "common heritage of mankind," and

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[13]Quoted in Nossiter, p. 57.

[14]Doug Bandow, "The US Role in Promoting Third World Development," in Heritage Foundation, *US Aid to the Developing World: A Free Market Agenda* (Washington: Heritage Foundation, 1985), p. xxii.

[15]*Ibid.,* p. xxiv

therefore subject to the political control of the Third World.[16]

Resubordinating the South I: Structural Adjustment

When the Reagan administration came to power in 1981, it was riding on what it considered a mandate not only to roll back communism but also to discipline the Third World. What unfolded over the next four years was a two-pronged strategy aimed, on the one hand, at dismantling the system of "state-assisted capitalism" that was seen as the domestic base for Southern national capitalist elites and, on the other, drastically weakening the United Nations system as a forum and instrument for the South's economic agenda.

The opportunity came none too soon in the form of the global debt crisis that erupted in the summer of 1982, which drastically weakened the capabilities of Southern governments in dealing with Northern states and corporations and Northern-dominated multilateral agencies.

The instruments chosen for rolling back the South were the World Bank and the IMF. This was an interesting transformation for the World Bank, which had previously been vilified by the *Wall Street Journal* and the right-wing as one of the villains behind the weakening of the North's global position by "promoting socialism" in the Third World via its loans to Southern governments. But the liberal McNamara, who was now faulted by the right for losing Vietnam and failing to contain the Southern challenge, was replaced by a more pliable success, and ideological right-wingers seeking the closure of the Bank were restrained by pragmatic conservatives who wished to use the Bank instead as a disciplinary mechanism.

"Structural adjustment" referred to a new lending approach that had been formulated during McNamara's last years at the Bank. Unlike the traditional World Bank project loan, a structural adjustment loan was intended to push a program of "reform" that would cut across the whole economy or a whole sector of the economy. In the mid-eighties, IMF and World Bank-imposed structural adjustment became the vehicle for a program of free-market liberalization that was applied across the board to Third World economies suffering major debt problems. Almost invariably, structural adjustment programs had the following elements:

- radically reducing government spending, ostensibly to control inflation and reduce the demand for capital inflows from abroad, a measure that in practice translated into cutting spending on health, education and welfare

[16] *Ibid.,* pp. Xxiii-xxiv.

- liberalizing imports and removing restrictions on foreign investment, ostensibly to make local industry more efficient by exposing them to foreign competition;
- privatizing state enterprises and embarking on radical deregulation in order to promote more efficient allocation and use of productive resources by relying on market mechanisms instead government decree;
- devaluing the currency in order to make exports more competitive, thus resulting in more dollars to service the foreign debt; and
- cutting or constraining wages and eliminating or weakening mechanisms protecting labor like the minimum wage to remove what were seen as artificial barriers to the mobility of local and foreign capital.

By the late 1980s, with over 70 Third World countries submitting to IMF and World Bank programs, stabilization, structural adjustment, and shock therapy managed from distant Washington became the common condition of the South. While structural adjustment was justified as necessary to create the conditions that would enable Third World countries to repay their debts to Northern banks, there was a more strategic objective, and that was to dismantle the system of state-assisted capitalism that served as the domestic base for the national capitalist elites. In 1988, a survey of structural adjustment programs (SAPs) carried out by the United Nations Commission for Africa concluded that the essence of SAPs was the "reduction/removal of direct state intervention in the productive and redistributive sectors of the economy."[17] As for Latin America, one analyst noted that the U.S. took advantage of "this period of financial strain to insist that debtor countries remove the government from the economy as the price of getting credit."[18] Similarly, a retrospective look at the decade of adjustment in a book published by the Inter-American Development Bank in 1992 identified the removal of the state from economic activity as the centerpiece of the ideological perspective that guided the structural reforms of the 1980s:

> In this school of thought, the history of Latin America in the post-war period is the history of a collective error in terms of the economic course chosen, and of the design of the accompanying institutions. To correct that error, the long period during which the public sector has held the center of the economic stage has to be brought to an end, and a radical remedy applied: the withdrawal of the producer State and state-assisted capitalism, the limiting of the State's reponsi-

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[17] Cited in Seamus Cleary, "Toward a New Adjustment in Africa," in "Beyond Adjustment," Special Issue of *African Environment,* Vol. 7, Nos. 1-4, p. 357.

[18] John Sheahan, "Development Dichotomies and Economic Development Strategy," in Simon Teitel, ed., *Towards a New Development Strategy for Latin America* (Washington, DC: Inter-American Development Bank, 1992), p. 33.

> bilities to its constitutional commitments, a return to the market for the supply of goods and services, and the removal of the obstacles to the emergence of an independent entrepreneurial class.[19]

By the end of the 12-year-long Reagan-Bush era in 1992, the South had been transformed: from Argentina to Ghana, state participation in the economy had been drastically curtailed; government enterprises were passing into private hands in the name of efficiency; protectionist barriers to Northern imports were being radically reduced; and, through export-first policies, the internal economy was more tightly integrated into the North-dominated capitalist world markets.'

Resubordinating the South II: Bringing the NICs to Heel

There was one area of the South that was relatively untouched by the first phase of the Northern economic counterrevolution. That was East and Southeast Asia. Here practically all the economic systems displayed the same features of state-assisted capitalism found elsewhere in the South: an activist government intervening in key areas of the economy, a focus on industrialization in order to escape the fate of being simply agricultural or raw material producers, protection of the domestic market from foreign competition, and tight controls on foreign investment. Where the key East and Southeast Asian economies appeared to differ from other economies in the South was mainly in the presence of a fairly strong state that was able to discipline local elites, the greater internalization of a developmentalist direction by the state elite, and the pursuit of aggressive mercantilist policies aimed at gaining markets in First World countries, particularly the United States.

The frontline status in Asia of many of these so-called "Newly Industrializing Countries" (NICs) during the Cold War ensured that Washington would turn a blind eye to many of their deviations from the free market ideal. But as the Cold War wound down from the mid-1980s, the US began to redefine its economic policy toward East Asia as the creation of a "level playing field" for its corporations via liberalization, deregulation, and more extensive privatization of Asian economies.

It was a goal that Washington pursued by various means in the late 1980s and early 1990s. However, access to Japanese capital, which was relocating many of its industrial operations to East and Southeast Asia to offset the loss of competitiveness in Japan owing to the rapid appreciation of the yen triggered by the Plaza Accord in 1985, allowed countries like South Korea, Thailand, and Indonesia to ignore the requirements

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[19] Pedro Gerchunoff and Juan Carlos Torre, "What Role for the State in Latin America?," in Teitel, p. 33.

of formal structural adjustment programs that were foisted on them by the World Bank and the IMF in the early 1980s when they were temporarily destabilized by the debt crisis. This left unilateralism in trade and financial diplomacy as the principal mechanism employed by the US to deal with the increasingly successful Asian "tigers."

Unilateralism was aggressively pursued, sometimes to the point of de facto trade war. Washington's mood was aptly captured by a senior US official who told a capital markets conference in San Francisco that "Although the NICs may be regarded as tigers because they are strong, ferocious traders, the analogy has a darker side. Tigers live in the jungle, and by the law of the jungle. They are a shrinking population."[20]

Unilateral pressure, with some assistance from the IMF and the World Bank, succeeded in getting key Asian countries to liberalize their capital accounts and to move to greater liberalization of their financial sectors. But when it came to trade liberalization, the results were meager, except perhaps in the case of Korea, whose trade surplus with the US had been turned into a trade deficit by the early 1980s. But even this development did not change the US Trade Representative's assessment of Korea as "one of the toughest places in the world to do business."[21] As for the Southeast Asian countries, Washington's assessment was that while they might have liberalized their capital accounts and financial sectors, they remained highly protected when it came to trade and were dangerously flirting with "trade distorting" exercises in industrial policy, like Malaysia's national car project, the Proton Saga, or Indonesia's drive to set up a passenger aircraft industry.

The indiscriminate financial liberalization demanded by Washington and the Bretton Woods institutions coupled with the high-interest rate and fixed currency regime favored by local financial authorities brought in massive amounts of foreign capital into the region. But it also served as the wide highway through which $100 billion exited in 1997 in a massive stampede in response to dislocations caused by overinvestment and unrestricted capital inflows, like the collapse of the real estate market and widening current account deficits.

A golden opportunity to push the US agenda opened up with the financial crisis, and Washington did not hesitate to exploit it to the hilt, advancing its interests behind the banner of free-market reform. The rollback of protectionism and activist state intervention was incorporated into stabilization programs imposed by the IMF on the key crisis countries of Indonesia, Thailand, and South Korea.

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[20] David Mulford, "Remarks before the Asia-Pacific Capital Markets Conference," San Francisco, November 17, 1987.

[21] Testimony of Ambassador Charlene Barshefsky, USTR, before the House Ways and Means Trade Subcommittee, US Congress, Feb. 24, 1998.

In Thailand, local authorities agreed to remove all limitations on foreign ownership of Thai financial firms, accelerate the privatization of state enterprises, and revise bankruptcy laws along lines demanded by the country's foreign creditors. As the US Trade Representative told Congress, the Thai government's "commitments to restructure public enterprises and accelerate privatization of certain key sectors—including energy, transportation, utilities, and communications—which will enhance market-driven competition and deregulation—[are expected] to create new business opportunities for US firms."[22]

In Indonesia, the USTR emphasized that the IMF's conditions for granting a massive stabilization package addressed

> Practices that have long been the subject of this [Clinton] Administration's bilateral trade policy...Most notable in this respect is the commitment by Indonesia to eliminate the tax, tariff, and credit privileges provided to the national car project. Additionally, the IMF program seeks broad reform of Indonesian trade and investment policy, like the aircraft project, monopolies and domestic trade restrictive practices, that stifle competition by limiting access for foreign goods and services.[23]

The national car project and the plan to set up a passenger jet aircraft industry were efforts at industrial policy that had elicited the strong disapproval of Detroit and Boeing, respectively.

In the case of Korea, the US Treasury and the IMF did not conceal their close working relationship, with the Fund clearly in a subordinate position. Not surprisingly, the concessions made by the Koreans—including raising the limit on foreign ownership of corporate stocks to 55 per cent, permitting the establishment of foreign financial institutions, full liberalization of the financial and capital market, abolition of the car classification system, and agreement to end government-directed lending for industrial policy goals—had a one-to-one correspondence with US bilateral policy toward Korea before the crisis. As the USTR candidly told US congressmen:

> Policy driven, rather than market-driven economic activity.. meant that US industry encountered many specific structural barriers to trade, investment, and competition in Korea. For example, Korea maintained restrictions on foreign ownership and operations, and had a list of market access impediments...The Korea stabilization package, negotiated with the IMF in December 1997, should help open and expand competition in Korea by creating a more market-driven economy...[I]f it continues on the path to reform there will be important benefits not only for Korea but also the United States.[24]

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[22] *Ibid.*

[23] *Ibid.*

[24] *Ibid.*

Summing up Washington's strategic goal, Jeff Garten,. Undersecretary of Commerce during President Bill Clinton's first term, said, "Most of these countries are going through a dark and deep tunnel...But on the other end there is going to be a significantly different Asia in which American firms have achieved a much deeper market penetration, much greater access."[25] By 1998, US financial firms and transnationals were buying up Asian assets from Seoul to Bangkok at fire-sale prices.

Resubordinating the South IV: Dismantling the UN Development System

This assault on the NICs via the IMF stabilization progerams and on the broader South via Bretton Woods-imposed structural adjustment was accompanied by a major effort to emasculate the United Nations as a vehicle for the Southern agenda. Wielding the power of the purse, the United States, whose contribution funds some 20-25 per cent of the UN budget, moved to silence NIEO rhetoric in all the key UN institutions dealing with the North-South divide: the Economic and Social Council (ECOSOC), the United Nations Development Program, and the General Assembly. US pressure resulted as well in the effective dismantling of the UN Center on Transnational Corporations, whose high quality work in tracking the activities of the TNCs in the South, had earned the ire of the TNCs. Also abolished was the post of Director-General for International Economic Cooperation and Development, which "had been one of the few concrete outcomes, and certainly the most noteworthy, of the efforts of the developing countries during the NIEO negotiations to secure a stronger UN presence in support of international economic cooperation and development."[26]

But the focus of the Northern counteroffensive was the defanging, if not dismantling of UNCTAD. After giving in to the South during the UNCTAD IV negotiations in Nairobi in 1976 by agreeing to the creation of the commodity stabilization scheme known as the Integrated Program for Commodities, the North, during UNCTAD V in Belgrade, refused the South's program of debt forgiveness and other measures intended to revive Third World economies and thus contribute to global recovery at a time of worldwide recession.[27] The northern offensive escalated during UNCTAD VIII, held in Cartagena in 1992. At this watershed meeting, the North successfully opposed all linkages of UNCTAD discussions with the Uruguay Round negotiations of the GATT and managed to erode UNCTAD's negotiation functions, thus calling its existence into

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[25] Quoted in "Worsening Financial Flu Lowers Immunity to US Business," *New York Times,* Feb. 1, 1998.
[26] Adams, p. 43.
[27] South Commission, *The Challenge to the South* (New York: Oxford University Press, 1991), p. 217.

question.[28] UNCTAD's main function would henceforth be limited to "analysis, consensus building on some trade-related issues, and technical assistance."[29]

This drastic curtailing of UNCTAD's scope was apparently not enough for certain Northern interests. For instance, the Geneva-based Independent Commission on Global Governance identified UNCTAD as one of agencies that could be abolished in order to streamline the UN system.[30] The Commission's views apparently coincided with that of Karl Theodor Paschke, head of the newly created UN Office of Internal Oversight Services, who was quoted by *Stern Magazine* as saying that UNCTAD had been made obsolete by the creation of the World Trade Organization.[31]

The World Trade Organization: Sealing the Defeat of the South

UNCTAD continues to survive, but the truth of the matter is that it has been rendered impotent by the WTO, which came into being following the signing of the Marrakesh Accord in April 1994, which put in force the agreements concluded during the eight-year Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The WTO was 46 years late in coming into being, though it had initially been regarded by liberal internationalists in the US and Britain as the third pillar of the Bretton Woods system, doing for trade what the IMF did for finance and the World Bank for economic reconstruction. A global trading organization had initially been scheduled come into existence as the International Trade Organization (ITO) in 1948, but the threat of non-ratification by unilaterialist forces in the US Senate led to its being shelved in favor of the much weaker GATT by the defensive Truman administration.

By the mid-eighties, trade rivalries with Europe and Japan, rising import penetration of the US market by Third World countries, frustration at the inability of US goods to enter Southern markets, and the rise of new competitors in the shape of the East Asian NICs made the US the leading advocate of a much expanded GATT with real coercive teeth. Central to the founding of the WTO were the twin drives of managing the trade rivalry among the leading industrial countries while containing the threat posed by the South to the prevailing global economic structure. In this sense, the WTO must be seen as a continuation or extension of the same Northern reaction that drove structural adjustment.

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[28] Myriam Van der Stichele, "World Trade—Free Trade for Whom, Fair for Whom?," in Childers, p. 69.

[29] *Ibid.*

[30] "South Decries Moves to Close UNCTAD, UNIDO," *Third World Resurgence,* No. 56, p. 41.

[31] *Ibid.*

Indeed, the WTO, with its enshrinement of the principle of free trade as the organizing principle of the global trading system, represents the defeat of everything that the South fought for in UNCTAD: getting fair prices for their commodities via commodity price agreements; the institutionalization of trade preferences for Southern goods owing to their underdeveloped status; preferential treatment for local investors; the use of trade policy as a legitimate instrument for industrialization; and more concerted technology transfer to the South.

Instead, the WTO institutionalizes free trade, the most favored nation principle, and national treatment as the pillars of the new world trading order. National treatment, which is institutionalized in the General Agreement on Trade in Services (GATS) of the Uruguay Round, is perhaps the most revolutionary of these principles and the most threatening to the South for it gives foreign service providers, from telecommunications companies to lawyers to educational agencies, the same rights and privileges as their domestic counterparts.

Although the GATT-WTO Accord does recognize the "special and differential status" of the developing countries, it does not see this as a case structurally determined differences but as one of gaps that can be surmounted by giving developing countries a longer adjustment period than the developed countries.

While Northern environmental organizations are critical of the WTO owing to their fears that environmental standards in the North are being subordinated to free trade according to the principle of "free trade uber alles," as Ralph Nader calls it, the Southern countries have articulated their concerns about the GATT-WTO's anti-developmental thrust. In their view, GATT-WTO is inherently unsympathetic to industrialization. at the same time that it erodes the agricultural base of the developing societies.

The WTO and Industrialization in the South

In signing on to GATT, Third World countries, the critique goes, have agreed to ban all quantitative restrictions on imports, reduce tariffs on many industrial imports, and promise not to raise tariffs on all other imports. In so doing, they have effectively given up the use of trade policy to pursue industrialization objectives. The way that the NICs, or "newly industrializing countries," made it to industrial status, via the policy of import substitution, is now effectively removed as a route to industrialization.

The anti-industrialization thrust of the GATT-WTO Accord is made even more manifest in the Agreement on Trade-Related Investment Measures (TRIMs) and the Agreement on Trade-Related Intellectual Property Rights (TRIPs). In their drive to industrialize, NICs like South Korea and Malaysia made use of many innovative mechanisms such as trade-balancing requirements that tied the value of a foreign investor's imports of raw materials and components to the value of his or her exports of the finished commodity, or "local content" regulations which mandated that a certain percentage of the components that went into the making of a product was sourced locally.

These rules indeed restricted the maneuvering space of foreign investors, but they were successfully employed by the NICs to marry foreign investment to national industrialization. They enabled the NICs to raise income from capital-intensive exports, develop support industries, bring in technology, while still protecting local entrepreneurs' preferential access to the domestic market. In Malaysia, for instance, the strategic use of local content policy enabled the Malaysians to build a "national car," in cooperation with Mitsubishi, that has now achieved about 80 per cent local content and controls 70 per cent of the Malaysian market.

Thanks to the TRIMs accord, these mechanisms used are now illegal.

Like the TRIMs agreement, the TRIPs regime is seen as effectively opposed to the industrialization efforts of Third World countries. This becomes clear from a survey of the economic history not only of the NICs but of almost all late-industrializing countries. A key factor in their industrial take-off was their relatively easy access to cutting-edge technology: The US industrialized, to a great extent by using but paying very little for British manufacturing innovations, as did the Germans. Japan industrialized by liberally borrowing US technological innovations, but barely compensating the Americans for this. And the Koreans industrialized by copying quite liberally and with little payment US and Japanese product and process technologies.

But what is "technological diffusion" from the perspective of the late industrializer is "piracy" from that of the industrial leader. The TRIPs regime takes the side of the latter and makes the process of industrialization by imitation much more difficult from hereon. It represents what UNCTAD describes as "a premature strengthening of the intellectual property system...that favors monopolistically controlled innovation over broad-based diffusion."[32]

The TRIPs regime provides a generalized minmum patent protection of 20 years; increases the duration of the protection for semi-conductors or computer chips; institutes draconian border regulations against products judged to be violating intellectual property rights; and places the burden of proof on the presumed violator of process patents.

The TRIPs accord is seen by the South a victory for the US high-tech industry, which has long been lobbying for stronger controls over the diffusion of innovations. Innovation in the knowledge-intensive high-tech sector—in electronic software and hardware, biotechnology, lasers, opto-electronics, liquid crystal technology, to name a few—has become the central determinant of economic power in our time. And when any

[32] UNCTAD, *Trade and Development Report 1991* (New York: United Nations, 1991), p. 191.

company in the NICs and Third World wishes to innovate, say in chip design, software programming, or computer assembly, it necessarily has to integrate several patented designs and processes, most of them from US electronic hardware and software giants like Microsoft, Intel, and Texas Instruments.[33] As the Koreans have bitterly learned, exorbitant multiple royalty payments to what has been called the American "high tech mafia" keeps one's profit margins very low while reducing incentives for local innovation. The likely outcome is for a Southern manufacturer simply to pay royalties for a technology rather than to innovate, thus perpetuating the technological dependence on Northern firms.

Thus, TRIPs enables the technological leader, in this case the United States, to greatly influence the pace of technological and industrial development in rival industrialized countries, the NICs, and the Third World.

TRIPs and Agriculture

These considerations do not exhaust the developing countries' concerns about TRIPs. The agreement is also of concern because of the threat it poses to the very existence of agarian communities. Because it strengthens considerably the system of private patenting of intellectual property, TRIPs has opened the way for the privatization of products developed from genetic processes or communal technological innovation in the South. As one analyst puts it,

> Once modified, no matter how slightly, such genetic material can be patented by corporations or individuals who thus appropriate all financial benefits. As it stands now, an individual or company can collect a plant from a developing country, modify it or isolate a useful gene and patent a new plant variety or product that contains it, without having to make any payment whatever to the communities whose traditional knowledge enabled the plant to be identified in the first place.[34]

While the GATT-WTO Accord does mention the possibility of a sui generis system for patenting agricultural products and process technologies, which could apply to those developed collectively by agrarian communities and indigenous peoples in the South, the emphasis of TRIPs is on the privatization of the nexus between natural processes and human intervention.

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[33] See discussion of this in Walden Bello and Stephanie Rosenfeld, *Dragons in Distress: Asia's Miracle Economies in Crisis* (San Francisco: Institute for Food and Development Policy, 1990), p. 161.

[34] Jeff Atkinson, *GATT: What Do the Poor Get?* Background Report No. 5 (Melbourne: Community Aid Abroad, 1994), p. 12.

The threat posed by TRIPs to Third World agrarian communities is no longer one that is simply looming on the horizon. A US firm has patented 'Jasmati' rice which is a cross of Thailand's jasmine rice and India's basmati rice. Monsanto is now enforcing its proprietary rights to the use of seeds from harvests produced by "Monsanto-improved" seeds purchased by farmers. W.R. Grace has applied for and received a US patent for a process patent for the extraction of an active ingredient of the Neem tree, which is known for its wide variety of medical and other uses in India.[35]

There are other less well-known examples of what some scholars from the South have labelled "biopiracy" in the guise of intellectual property rights. One US pharmaceutical company stands to make millions of dollars from two drugs, an anticarcinogenic and anti-leukemia agent, whose source is Madagascar.[36] Merck, a leading western pharmaceutical firm, is also likely to profit from the antic-coagulant it is developing from the tikluba plant, which has long been used by indigenous peoples in the Amazon.[37] Some 11 patents have already been filed in the United States and Japan covering the extraction and use of *nata de coco* from coconut, a major cottage industry in the Philippines, and patents by foreign entities and individuals are reported to have been filed on lagundi and banaba, two Philippine plants with medicinal qualities.[38]

The Agreement on Agriculture

The TRIPs accord is an example to the South of the double standards in the GATT-WTO. While it pushes free trade on the South in some of its subsidiary agreements, it actually promotes monopoly for the North in others. This is true as well of the Agreement on Agriculture (AOA), which will be opened up for new negotiations after the Third Ministerial in Seattle in late November 1999.

A close examination of the development and impact of the AOA would be useful for it illustrates how the dynamics of rivalry among the trade superpowers that is one of the driving forces of the GATT-WTO intersects with the equally dominant dynamic of subordinating the South to the North.

Prior to the Uruguay Round, agriculture was de facto outside GATT discipline, mainly because the US had sought in the 1950's a waiver from from Article XI of GATT, which prohibited quantitative restrictions on imports. With the US threatening to leave

[35] Pratap Chatterjee, "Riders of the Apocalypse," *The New Internalionalist,* July 1994, p. 10.
[36] Atkinson, *ibid.*
[37] *Ibid.*
[38] Nicarnor Perlas, "GATT, Biotechnology, and the Church," Paper presented at the Catholic Bishops Conference for the Philippines—Visaya Secretariat," Nov. 16, 1994, p. 5.

the GATT unless it was allowed to maintain protective mechanisms for sugar, dairy products, and other agricultural commodities, Washington was given a “non-time-limited waiver” on agricultural products.[39] This led to the GATT’s lax enforcement of Article XI on other agricultural producers for fear of being accused of having double standards.

The US and the other agricultural powers not only ignored Article XI but they also exploited Article XVI, which exempted agricultural products from the GATT’s ban on subsidies. One effect of these moves was the transformation of the EU from being a net food importer into a net food exporter in the 1970s. By the beginning of the Uruguay Round in the mid-eighties, the EU’s Common Agricultural Policy (CAP) had developed into what was described as “a complex web of price and sales guarantees, subsidies, and other support measures that largely insulated farmers’ incomes from market forces.”[40]

With domestic prices set considerably above world prices and no controls on production, European farmers expanded production. The mounting surpluses could only be disposed of through exports, sparking competition with the previously dominant suibsidized US farmers for third-country markets. The competition between the agricultural superpowers turned fierce, but it was not so much their subsidized farmers that suffered. The victims were largely farmers in the South, such as the small-scale cattle growers of West Africa and South Africa, who were driven to ruin by low-priced EU exports of subsidized beef.

With state subsidies mounting to support the bitter competition for third country markets, the EU and US gradually came to realize that continuing along the same path could only lead to a no-win situation for both. By the late eighties, for instance, close to 80 per cent of the EU’s budget was going to support agricultural programs, and the US had inaugurated a whole new set of expensive programs such as the Export Enhancement Program, to win back markets, such as the North African wheat market from the EU.[41]

This mutual realization of the need for rules in the struggle for third country markets is what led the EU and US to press for inclusion of agriculture in the Uruguay Round. Rather than seriously promoting a mechanism to advance free trade, the two superpowers resorted to the rhetoric of free trade to regulate a condition of monopolistic competition, with each seeking advantage at the margins.

The manner in which the Agreement came into being lends support to this interpretation. The final Agreement was essentially the Blair House Accord, which was negotiated only between the US and the EU in 1992 and 1993. The Accord was then promptly tossed to other GATT members by the two superpowers in 1994 on a take-it-or-

[39] Michael Trebilcock and Robert Howse, *The Regulation of International Trade* (London: Routledge, 1995), p. 193.
[40] *Ibid.,* p. 201.
[41] *Ibid.,* p. 202.

leave-it basis. Understandably, many of the other GATT members, and not only those from the South, felt that they were practically coerced into signing the agreement.

The key provisions of the Agriculture Agreement were the following

- Domestic support, quantified into a common measure called the 'Aggregate Measure of Support', would be reduced by 20 percent over a six year period; that is AMS would be 20 percent lower in 2001 than AMS in 1986-88. However, certain domestic subsidies, including direct income payments for farmers (the so-called 'Green Box' and 'Blue box measures) were exempted from cuts.
- Export subsidies would be reduced over a six-year-period by 21 percent in volume terms and by 36 percent in terms of total cash value, and members would not agree to expand subsidies beyond the level reached at the end of six-year period.
- Import quota would be transformed into tariffs(tariffication), and these tariffs would be reduced over a period of six year by an average of 31 percent, with a 15 percent minimum tariff line, again with the base being the 'tariff equivalents' of these qoutas in 1986-88.
- Countries would pledge 'minimum access volume (MAVs) to agricultural imports that would start at 3 percent of 1986-88 consumption and rise to five percent in 1999.

Under the so-called "special differential status" treatment accorded to them under GATT, developing countries would be subject to only two-thirds of the cuts in tariffs, domestic support, and export subsidies applied to developed countries, and they would be given a grace period of 10 years, instead of six years. to put these into effect.

By the time of the Seattle ministerial in late 1999, the Agreement will have been in effect for nearly five years but so far, it appears to have had little effect in terms of effectively reducing the protection and subsidization enjoyed by agriculture in developed countries. Several mechanisms have worked to produce these results.

First, for the aggregate measure of support, export subsidies and tariffs, the 1986-88 level at which the items were bound were quite high relative to the levels in 1995 when the Agreement took effect, resulting in minimal actual reductions in subsidies and tariffs relative to 1995 levels. In the case of the US, for instance, between 1992 and 1996, the simple average tariffs for agriculture and livestock production rose from 5.7 percent to 8.5 percent, for food products from 6.6 to 10.0 percent, and for tobacco products from 14.6 to 104.4 percent.[42] Also the Uruguay Round's requirements that import quotas be transformed into tariffs has been abused by EU and the US, with the latter, for instance, levying an ad valorem duty of 350 percent for above-minimum-access imports of tobacco products.[43]

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[42] World Trade Organization, *Trade Policy Review: United States* (Geneva; WTO, 1996), pp. 116-117.

[43] *Ibid.*

Second, the rules for achieving the 36 percent average tariff reduction (on the very high 1986-88 levels) were quite loose, so that countries could meet the GATT requirement through a combination of minimal tariff cuts on sensitive or valued product lines and deep cuts in nonsensitive products, and by 'backloading' their already minimal tariff cuts on the valued products toward the end of the six-year-period.

Third, major subsidies to farmers in the North, such as direct income payments to make up for the vagaries of the market, have been exempted from cuts.

The exemption of direct income payments to farmers from GATT discipline was a major blow to the hopes of many countries that the Agriculture Agreement would serve as a mechanism for freer international trade. Such payments were excluded on the specious grounds that they were 'decoupled from production' and thus 'non-trade distorting.'

In the EU, these direct income payments are mainly based on output, the bulk of them via a 'land set-aside program' which entitles each farmer to a subsidy when she or he withdraws 15 percent of his/her land from cultivation. The idea behind the set-aside program is to restrict output, thus raising prices. In the US Farm Bill, farmers get the same level of direct income subsidy in good and bad crop years. Deficiency payments are projected to average US$5.1 billion a year between 1996 and 2002.[44]

But the truth is that direct payments to European and US farmers are anything but decoupled from production, since without them agriculture would scarcely remain profitable. Deficiency payments for instance, make up between one-fifth and one-third of US farm incomes.[45] In other words, in enshrining the notion of decoupled payments as untouchable subsidies in Green Box, the US and the EU were, as one analyst put it, "taking away direct support of markets and replacing it with direct subsidization of [Northern] farmers."[46]

The combination of minimal cuts in tariffs, export subsidies and AMS, and the maintenance of direct income payments has had the predictable result of raising the total amount of agricultural subsidies in the OECD countries since the Agreement came into force: from US$182 billion in 1995 to an astounding $280 billion in 1997, with the major share of this figured accounted for by the EU and the US. Over 40 percent of the total value of production in the OECD countries is now accounted for by different forms of producer subsidies.[47]

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[44] M. Zepezauer and A. Naiman, *Take the Rich off Welfare* (Tucson: Odonian Press, 1996).

[45] Faeth, cited in A.P.G. Moor, *Perverse Incentives* (The Hague: Institute for Research on Public Expenditure, 1997).

[46] Brian Gardner, "EU Dumping to Continue," in *The GATT Agreement on Agriculture: Will It Help Developing Countries ?* (London: Catholic Institute of International Relations, 1994).

[47] Moor.

In the contrast to this massive subsidization in the OECD countries, farmers in many developing countries have not only had little financial support from the government. Where some subsidization exists, this often does not reach the 10 per cent of the value of production allowed by the AOA. In fact, developing countries have been penalized by policies that have brought about the "negative subsidization" of their agricultural sector.[48] One study estimates that for 18 developing countries, 'taxation' or the transfer of value from agricultural production as subsidies to other sectors of the economy amounted to an average of 30 percent of the value production. Yet it is the farmers of these countries of the South that will be forced to bear the burden of adjustment to the new agricultural regime since their lack of subsidies is paralleled by their clear commitments to give greater market access to Northern farming interests, whose runaway subsidization continues to push them to create mountains of commodities seeking export outlets.

A 1997 report to the EU farm ministers projected the surplus of wheat to rise from 2.7 million metric tons to 45 million tons by 2005, and total cereal surplus to shoot up to 58 million metric tons. The solution to this condition of subsidized overproduction, said EU Agriculture Minster Franz Fischler, was intensified efforts to exports grain.[49] Continuing subsidization has also deepened US agriculture's dependence on massive exporting. Admitting that "one out of every three farm acres in America is dedicated to exports," US Trade Representative Charlene Barshefky has concluded "given the limitations inherent in US demand-led growth, we must find new markets for American agriculture. We must open new markets to support the increasingly productive US agricultural sector."[50]

So the story continues: subsidized Nothern producers that make a mockery of global free trade in agriculture fight for developing country markets, squeezing the non-subsidized farmers in the latter.

Undoubtedly, AOA does offer some concessions to the South in the form of the lifting of quotas and some reduction in tariffs on developing country exports of commercial crops like palm oil and coconut oil. But these are concessions that benefit mainly organized lobbies of cash-crop exporters and processors, such as Malaysian palm-oil plantations, big cocoa and coffee planters in Africa and Asia, and big sugar interests in the Caribbean. The vast majority of unorganized small farmers specializing in corn, rice, and other food crops are hurt by this trade off, for the quid pro quo is precisely the liberalization of their markets for staples and other basic foods.

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[48] *Ibid.*

[49] "Threats of food Surplus for EU," *Bridges,* Vol. 1, No. 13, 1997.

[50] USTR Charlene Barshefsky, "Remarks Prepared for Delivery at the US Department of Agriculture Agricultural Outlook Forum, Washington, DC, Feb. 24, 1997.

In the case of Southeast Asia, for instance, limited gains for palm-oil interests in Malaysia and coconut oil exporters in Manila stemming from the Uruguay Round has been outbalanced by the tremendous damage imposed by liberalization on rice farmers in Malaysia, Indonesia, and the Philippines. Thai rice farmers are hardly benefiting; it's the Bangkok-based middlemen that are profiting from increased Thai rice exports. Further liberalization in a new round of negotiations will simply drive the region's small farmers over the edge, as it will small farmers in other parts of the South.

Perhaps the profound inequality institutionalized in the AOA was best summed up by the Philippines' Secretary of Trade and Industry in his speech at the Second Ministerial of the WTO in May 1998: "The Agriculture Agreement as it now stands ...has perpetuated the unevenness of the playing field which the multilateral trading system has been seeking to correct. Moreover, this has placed the burden of adjustment on developing countries relative to countries who can afford to maintain high levels of domestic support and export subsidies."[51]

Oligarchic Decision-making

There are other inequalities structured into the WTO system. The system of decisionmaking is perhaps among the most blatant of these. While pro-WTO propaganda has projected that agency as a one nation/one vote organization, where the United States has exactly one vote, like Rwanda or the Dominican Republic, in fact, it is quite undemocratic and actually run by an oligarchy of countries, much like the World Bank and the IMF. Were majority rule to prevail, then the WTO would, like the UN General Assembly, be structurally very responsive to the needs of the South. But, as it did at the World Bank and the IMF, the North evolved other mechanisms of control. While at the Bank and the Fund, the prime mechanism of control is the size of rich countries' capital subscriptions, which gives them enormous voting power vis-a-vis the mass of developing countries, at the WTO, Northern domination is achieved via what is euphemistically referred to as "consensus."

This process was described in the following manner before the U.S. Congress by an influential WTO advocate: after noting that there had not been a vote taken in GATT, the WTO's predecessor, since 1959, economist C. Fred Bergsten underlined that the WTO "does not work by voting. It works by a consensus arrangement which, to tell the truth, is managed by four—the Quads: the United States, Japan, European Union, and

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[51] Speech at the Second Ministerial of the World Trade Organization, May 18-20, 1998.

[52] C. Fred Bergsten, Director, Institute for International Economics, Testimony before the US Senate Committee on Commerce, Science, and Technology, Washington, DC, Oct. 13, 1994.

Canada."[52] He continued: "Those countries have to agree if any major steps are going to be made, that is true. But no votes. I do not anticipate votes in the new institution."[53]

The way that the consensus rule assures the hegemony of the North was recently on display in the selection of the successor to Renato Ruggieo as director general. The US-led bloc that supported New Zealander Mike Moore refused a head count, as proposed by backers of Thailand's Supachai, on grounds that this would violate the WTO's consensus tradition.

Indeed, so undemocratic is the WTO that decisions are arrived at informally, via caucuses convoked in the corridors of the ministerials by the big trading powers. The formal sessions are reserved for speeches. The key agreements to come out of the first and second ministerials of the WTO—the decision to liberalize information technology trade taken Singapore in 1996 and the agreement to liberalize trade in electronic commerce arrived at in Geneva in 1998—were all decided on in informal back-room sessions and simply presented to the full assembly as faits accompli.

Strategy for Change

It is against this dismal background that we now to move to the question of reform. Here one does not feel like taking the path of those who, after indicting the Bretton Woods institutions, do a turnaround when asked for solutions and appeal to the Bretton Woods institutions and the WTO to become answerable to the UN and to reorient their policies to serve the interests of the world's poor majority since this would be "truly in the enlightened self-interest of people in the rich, industrialized countries, their children, and their children's children."[54] This is utopian thinking, especially at a time that the North has just completed a campaign of global rollback that has delivered the coup de grace to the Southern project of reform. For reform, not revolution, was what the NIEO, the Non-Aligned Movement, and UNCTAD was all about...and look where this already very limited enterprise—what one Northern observer described as "the present order, with extra helpings for the flag bearers of the South"[55]—got the Third World.

Change at this time means not spending or wasting time trying to enlarge areas of reform within the World Bank, IMF, and WTO. They are, to borrow a metaphor from Max Weber, an iron cage of three overlapping bureaucracies and mandates where Southern aspirations and interests are structurally constrained.

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[53] *Ibid.*

[54] Amir Jamal, "The IMF and World Bank—Managing the Planet's Money, in Childers, pp. 53-54.

[55] Nossiter.

One prong of a possible counter-strategy for defending the interests of the South must be directed at containing the gutting of the UN system and preserving its legitimacy, at a time that its effectiveness as an instrument of development is hobbled by Northern hostility and lack of money. That a little money can go a long way, when funneled into the right instrument, is shown by the example of the UNDP Human Development Report, which is now seen as the magisterial authority in both the North and the South on the social and economic state of the world, no matter what the whole arsenal of World Bank publications says. A good candidate for doing in trade what the Human Development Report does for development is the UNCTAD Trade and Development Report, whose focus on global structures impeding the ascent of the South is a good antidote to the WTO publications' doctrinal assertions on the benefits of free trade.

Beyond this, however, the project of making the UN agencies the pillars of an alternative global order is not going to result in success for a long, long time. What then should Southern movements for global reform focus their energies on? The main thrust, in our view, is to overload the system, to make it non-functional by constantly pushing demands that cannot be met by the system. For instance, in the case of the IMF, governments of the South and NGOs can press for the following demands: more transparency in IMF decision-making, more accountability of IMF staff, one country/one vote decisionmaking arrangements, and end to structural adjustment programs, no new funding for extended structural adjustment programs (ESAF), no extension of IMF authority to governance issues, and subordination of structural adjustment programs to global environmental agreements.

When it comes to the WTO, among the key tactics that could be deployed to overload the system might be pressing for the replacement of consensus decisioinmaking with majority voting, creative use of anti-dumping mechanisms against import penetration, and exploiting loopholes in the Sanitary and Phyto-sanitary Agreement to restrict agricultural imports. Developing country governments must approach WTO rules in the same way a good defense lawyer approaches criminal law, which is to exploit the ambiguities of the system for the client—in this case for Third World farmers, manufacturers, and other producers.

Of course, the success of a strategy of overloading the system depends greatly on creating global political alliances, including coalitions with anti-globalization social and political forces in the North. There are examples to draw from: A global pressure campaign by NGOs from both the North and the South on OECD governments prevented the adoption of the Multilateral Agreement on Investment (MAI) by that body. NGO pressure on the US Congress killed the granting of "fast-track" authority to negotiated free trade agreements to the US executive, weakening the ability of the US to demand greater trade liberalization at the Seattle WTO ministerial.

Where structures are hopeless, the next best solution is to have non-functioning structures or no operative structures at all. It was, for instance, during a period where no bodies supervised aid and development—the World War II era and immediate post-war era—that the countries of Latin America were able to successfully engage in import substitution to build up industrial structures. And it was during the period from the 1960's up to late eighties, before the establishment of the WTO, that the NICs of East and Southeast Asia were able to marry domestic protectionism to mercantilism to move from underdevelopment to industrial status in one generation.

Multilateral structures entrench the power of the Northern superpowers under the guise of creating a set of global rules for all. This is the reason why, in promoting the WTO in the US Congress, former US Trade Representative Mickey Kantor characterized the WTO as a "sword" that can be used to pry open economies. This is the reason Washington's academic point man on trade, C. Fred Bergsten, could tell the US Senate that ratification of the Marrakesh Agreement would serve the interests of the US because in addition to unilateral action, "we can now use the full weight of the international machinery to go after those trade barriers, reduce them, get them eliminated."[56]

Though the threat of unilateral action by the powerful is ever present, on balance a global system where there are either no or ineffective multilateral structures works to the benefit of the South.

Of course, the ideologues of the North will shout that this is tantamount to "anarchy." But then it has always been the powerful that have stoked this fear. The image of international relations in a world marked by few international arrangements as "nasty" and "brutish" has always been a Hobbesian fallacy that has not corresponded to reality. For the principal objective of most multilateral or international arrangements in history has never been to assure law and order to protect the weak. These structures have been pushed by the strong mainly to reduce the tremendous cost of policing the system to ensure that the less powerful do not cease to respect the rules set by the more powerful or break away completely.

In shirt, a fluid international system, where there are multiple zones of ambiguity that the less powerful can exploit in order to protect their interests, may be the only realistic alternative to the current global multilateral order that would weaken the hold of the North. The main beneficiaries of clearly articulated structures are always the powerful and the rich. The fewer structures and the less clear the rules, the better for the South.

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[56] C. Fred Bergsten, Director, Institute for International Economic, Testimony before the US Senate Committee on Commerce, Science, and Technology, Washington, DC, Oct. 13, 1994.

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