

# **Developing Country Coalitions in Multilateral Trade Negotiations: Aligning the Majors?**

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THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL  
AFFAIRS

ISBN: 1-919969-44-6

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# Executive Summary

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Before the Uruguay Round (UR), most developing countries followed import substitution and other restrictive trade policies, and consequently were not very active in General Agreement on Tariffs and Trade (GATT) forums in general. The scenario changed in the aftermath of the UR: outward-oriented policies have made trade and associated foreign investment much more important in shaping national economic policies and performance. Thus developing country participation across the range of World Trade Organisation (WTO) activities — in negotiations; dispute settlement; and in committees, working groups and review mechanisms handling the day-to-day administration of trade rules — is more important than ever.

This paper focuses on coalition building by developing countries, which is a key indicator of their overall capacity and effectiveness in the WTO. The issue is examined in the context of national trade policies and trade negotiations on other tracks, particularly free-trade agreement (FTA) initiatives. The paper is organised as follows. Section 1 provides historical context on developing countries' participation from GATT to the WTO, and assesses their current involvement in multi-country coalitions. It then discusses what form the WTO might take in future and the possible role of developing country coalitions in this process, in the Doha Round (DR) and beyond. Section 2 describes the involvement of the developing country

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majors (namely China, India, Brazil and South Africa)<sup>2</sup> in negotiating coalitions, and assesses the implications of this for the present and future of the WTO.

## **Developing Country Participation and Coalition Building from GATT to the WTO**

### **GATT: Before and during the Uruguay Round**

The participation of developing countries in GATT was relatively uncomplicated until the UR, as they largely excluded themselves from GATT negotiations.<sup>3</sup> They received unilateral tariff preferences from developed countries, in addition to tariff concessions negotiated among the latter in GATT rounds (through unconditional most-favoured nation (MFN) treatment). But they were not obliged to reciprocate with their own concessions, and had sweeping carve-outs from GATT disciplines (for example, through the infant industry and balance of payment provisions in GATT Article XVIII). These principles and measures were brought together under the rubric of Special and Differential Treatment (S&D) at the end of the Tokyo Round. The developing countries' restricted focus

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<sup>2</sup> India and Brazil are the long-standing developing country 'big beasts' in GATT/WTO. China has clearly joined this select rank with its accession in 2001. But is South Africa a developing country major? It has neither the political nor economic weight of the other three, but it is by some measure the most important trading nation in Africa, ahead of Egypt, Nigeria, Morocco and Kenya. Hence the authors think it worthwhile to add South Africa to the list, not least to shed more comparative light on the subject at hand.

<sup>3</sup> See Page S, 'Developing countries in GATT/WTO negotiations', *Working Paper No. 20*, Overseas Development Institute, February 2002, pp.9–10, available at [http://www.odi.org.uk/iedg/participation\\_in\\_negotiations/wto\\_gatt.pdf](http://www.odi.org.uk/iedg/participation_in_negotiations/wto_gatt.pdf).

on tariff preferences and carve-outs made them dependent on uncertain and dwindling tariff preferences; it inculcated a begging-bowl culture; and their absence from the bargaining table allowed developed countries to exclude agriculture, textiles and clothing from multilateral liberalisation. Nevertheless, this stance was a logical fit with inward-looking, import substitution policies in most developing countries. Brazil and India were seen to be the leaders of the developing country bloc in both the UN Conference on Trade and Development (UNCTAD) and GATT during this period.

This pattern began to change visibly in the early 1980s, led by the unilateral liberalisation of several GATT members. Export-oriented economies like South Korea, Hong Kong, Singapore and later other Association of South-East Asian Nations (ASEAN) countries needed access to developed country markets, but were increasingly facing protectionist policies there. Simultaneously, they were under pressure from the US to lower their trade barriers and strengthen intellectual property rights (IPR) protection. This underlined the ineffectiveness of old-style S&D and the compelling logic of being at the GATT bargaining table. At Punta del Este in 1986, East Asian and Latin American countries collaborated with the European Free Trade Association (EFTA) bloc in the 'Swiss-Colombian' coalition, overcame opposition from the developing country militant tendency led by India and Brazil and brokered the compromise that launched the round.<sup>4</sup> Although India and Brazil remained, as before, vocal and active, for the first time a group of about 20 other developing countries became involved in the negotiating process of a GATT round, both formally and informally. Many Latin American members were active in the Cairns Group on

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<sup>4</sup> Croome J, *Reshaping the World Trading System: A History of the Uruguay Round*. Geneva: WTO/Kluwer, 1999, pp.21-8.

agriculture, while many East Asian members were active in the International Textiles and Clothing Bureau. The ASEAN members, notwithstanding internal differences, co-operated effectively on several issues.

Thus the UR witnessed the emergence of a minority of the developing world as active players at the multilateral level, in pragmatic, *à la carte* coalitions with other developing countries and developed countries to advance their positions on market access and rules. India resisted these developments right through the round. Brazil seemed to switch from Indian-style confrontation to pragmatism and flexibility in the second half of the round, coinciding with its unilateral liberalisation programme in the early 1990s. The vast majority of developing countries, mostly least-developed countries (LDCs), remained passive and inactive. The UR agreements reflected these dynamics. The active minority of developing countries made stronger commitments than the rest on market access, in addition to adopting a whole range of trade rules for the first time as part of the Single Undertaking. In return they got extra market access to developed country markets and stronger rules (for example, on voluntary export restraints and dispute settlement), though the options on agriculture, textiles and clothing, and disciplines on anti-dumping measures were limited. This active minority gained from the round; the inactive majority did not. The latter did not get market access in products of interest to them, especially in agriculture, textiles and clothing.<sup>5</sup> S&D changed (de facto if not de jure) from an emphasis on non-reciprocity and blanket carve-outs to one where developing countries were expected to make market access and rules commitments, though qualified with lower liberalisation levels, longer transition periods for implementation and (non-binding) promises of technical

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<sup>5</sup> Page S, *op. cit.*, p.15.

assistance. Old-style S&D seemed to be restricted only to LDCs.

## **From GATT to the WTO**

The UR agreements take the WTO wider — with broader sectoral coverage — and deeper into domestic regulations, all underpinned by much stronger dispute settlement. WTO membership has almost doubled over the last two decades. In light of this, three underlying trends need to be highlighted, all of which ring alarm bells.

Firstly, the WTO has much more regulatory baggage compared with GATT, with pressure to bring in even more detailed and prescriptive regulations on labour, environmental, food safety and other product- and process-related standards. Secondly, the WTO has legalised considerably through dispute-settlement practice over the past decade. Thirdly, the WTO is becoming increasingly politicised. Externally, it is buffeted by a combination of old-style protectionist interests and new-style non-governmental organisations (NGOs). Internally, the vast expansion of membership has made decision making more unwieldy and snail-like. The ‘UN-isation’ of the WTO has gathered pace. Taken together, these pressures have virtually crippled the old GATT’s traditional strength: its ability to deliver results through effective diplomacy and negotiation. Regulatory intrusiveness makes it more difficult to maintain political legitimacy with governments and interest groups (now including NGOs). Stalled negotiations increase the temptation to settle sensitive policy dilemmas through adversarial litigation, which further tests the political legitimacy of the system. The hyperinflation of membership also strains the workability of the system to its limits. For these reasons, the WTO as a *negotiating* mechanism

has severely malfunctioned since the late 1990s. This was evident at Seattle, between Seattle and Doha, and right through the DR. The only exceptions have been the DR launch and the July 2004 package, but neither delivered concrete results.

The activities of the individual players and coalitions in the WTO have evolved over time. Old and new features are worth mentioning here. Looking at old features, the first observation is that the EU and US remain the two major players. Like the UR, the necessary but not sufficient condition for success in the DR and beyond is for both of these players to contain domestic political difficulties, defuse bilateral conflicts and co-operate effectively. Secondly, following UR precedent, success in this round will require the effective participation of about 25 developed and developing members, already active in the WTO. Japan, Canada, Switzerland, Australia and New Zealand from the Organisation for Economic Co-operation and Development (OECD) and Brazil, India, China and South Africa from the developing world need to be mentioned here, apart from many other Latin American and East Asian countries. Thirdly, multicountry coalitions will continue to be important. Broad-based, informal developed–developing country coalitions will be useful to share information and act as sounding boards for ideas (the ‘chat-group’ phenomenon); and even to resolve crises or give fresh impetus at strategic junctures, like the Swiss–Colombian coalition and the De-La-Paix Group during the UR. The drawback of these groups (such as Friends of the New Round and Friends of GATS) is that they are too big and heterogeneous to forge common positions.

Perhaps more important will be small, discrete, issue-based developed–developing country coalitions. The Cairns Group is the pathfinder in this respect, although one cannot expect such



formal and relatively tight-knit coalitions in other negotiating areas. Embryonic Friends Groups already exist, for example, in services, industrial goods, anti-dumping, subsidies and trade facilitation. These are noticeably weaker than they were during the UR. They need to be more coherent and proactive if the round is to advance. Not least, they are an important counter to the UN-isation of the WTO, which threatens to stop all effective decision making in its tracks.

Looking at new features, the first novel element is that the active, 'first-division' developing countries are negotiating with each other and other developing countries, especially on the tariff and non-tariff barriers (NTBs) that throttle South-South trade. During the UR, the active developing countries tended to go head-to-head with developed countries, but not with each other. That is changing — faster through bilateral and multilateral FTA negotiations, and more slowly in the WTO. Malaysia and China, for instance, have their sights on the relatively high barriers that impede access to the Indian market. The second novel element is the more active participation of many developing countries, including traditionally weaker ones, and even some LDCs, than during the previous rounds. These countries are too small or weak to sustain effective participation on their own, so they have been coming together in common-characteristic coalitions such as the Africa; Africa, Caribbean and Pacific (ACP); and LDC groups, and the G90.

However, there are distinct limits to the active participation of 'second-division' and 'third-division' developing countries with limited or very limited trade policy capacity, even in coalition formation. True, their coalitions have been playing a more prominent role in the preparation for and at recent ministerial conferences. They were broadly constructive in Doha and in putting together the July 2004 framework, but

were negative in Cancun. They came to Cancun with a long list of demands, but without credible negotiating proposals of their own. Their tactics resembled those of the UN more than those of the old GATT. Given shortcomings in policy capacity, these countries are likely to remain followers, not initiators and proactive players, in future multilateral forums. This applies particularly to the LDCs, but also (though to a less extreme extent) to large low-income countries like Pakistan, Egypt, Kenya and Nigeria. All may have more 'negative' bargaining power than before, that is, the ability and willingness to block agreement, but they will not have significant 'positive' bargaining power for the foreseeable future.

Thirdly, smaller defensive coalitions among developing countries have become more prominent. These include the G15 and Like-Minded Group (LMG), involving India, African countries and some ASEAN members. They took defensive positions in the run-up to Seattle and Doha, and prioritised implementation, S&D, and TRIPS and public health issues. Another example is the G33, formed on the eve of Cancun to campaign for the exemption of 'special products' from overall agricultural liberalisation. There is little doubt that these groups have made decision making more complicated and halted the progress in core market access negotiations. Fourthly, some regional coalitions that were effective during the UR (for example, EFTA, the Nordic Group, ASEAN) are no longer extant or are much-weakened.

Fifthly, the emergence of the G20 is clearly the big news in recent WTO coalition formation. It was formed on the eve of Cancun and brought together India, Brazil, China and South Africa, as well as other developing country members of the Cairns Group from Latin America and East Asia, plus Pakistan, Egypt and Nigeria. It was and remains a one-issue grouping whose central target is developed country agricultural

protection. Its position in Cancun was one of extreme offence and extreme defence: it pressed for significantly greater developed country liberalisation as a precondition for meaningful liberalisation of the G20 members' own markets. Despite large internal differences, notably between Brazil's export interests and India's protectionist interests, the G20 has held together and become a major influence in the WTO.<sup>6</sup> Apart from putting extra pressure on trade-distorting farm subsidies in OECD countries, it played a crucial part in creating the July 2004 negotiating framework. Beyond this, it has anchored the agricultural market access negotiations in 2005, with both the US and EU converging to its positions. It remains to be seen whether it will be similarly successful when it comes to domestic support.

### **Prospects for the Doha Round and the longer-term future of the WTO**

To conclude the DR successfully and to ensure the longer-term relevance of the WTO, member governments need to do two things: firstly, rediscover a core purpose; and secondly, revive an effective negotiating mechanism.<sup>7</sup>

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<sup>6</sup> Narlikar and Tussie argue that the G20 has successfully combined developing country dissatisfaction with the dominance of developed countries in rule setting in the multilateral trading system, and a single 'deal-breaking' issue, that is, the agricultural negotiations. They raise the possibility (explored below) that, given these characteristics, and if the agricultural logjam is solved, it may extend into other areas. See Narlikar A & D Tussie, 'Bargaining together in Cancun: Developing countries and their evolving coalitions', mimeo, 2003.

<sup>7</sup> This section draws on Sally R, 'The end of the road for the WTO? A snapshot of international trade policy after Cancun', *World Economics*, 5, 1, January–March 2004, pp.9–13, available at <http://www.world-economics->

To begin with, the WTO needs to rediscover a core purpose, something lost in the post-GATT transition. This should be the old GATT's *raison d'être*: the progressive reduction and removal of barriers to trade, underpinned by reasonably simple, transparent and non-discriminatory rules based on the most-favoured nation and national-treatment principles (as embodied in GATT Articles I and III). At the same time, WTO members — especially the two majors, the EU and US — should stop overloading the negotiating agenda with multiple and conflicting objectives. This means steering clear of excessive standards harmonisation and regulatory intrusions, nowadays especially on environmental and other product- and process-related standards. Excessive legalisation should also be avoided: dispute settlement should not drift into an exercise in judicial policy making. Market access is (or should be) the bread and butter of the DR. Hence negotiations on core market access in agricultural and non-agricultural goods, and services are far more important for development than all other aspects of the DR put together and should be given top priority.

Mending the WTO's broken negotiating mechanism depends, in the first instance, on intergovernmental political will, not so much on the reform of formal decision-making procedures. This is crucial if the WTO is to refocus on market access, where the real development gains lie, and avoid further drift.

The spirit of the Doha ministerial declarations is that the developing countries can and should participate proactively in collective decision making, with the help of technical assistance and associated 'capacity building' provided by international organisations and national donors. This notion is fanciful, not to say utopian. Many developing countries have intractable

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*journal.com*; and Sally R, 'Trade policy and international order: *Imperium, dominium* and the limits of multilateralism', mimeo.

domestic problems, not least chronic misgovernment that sometimes descends into ethnic strife, civil war and state collapse. Competent and experienced trade officials and negotiators are scarce. These countries might be able to join common-characteristic coalitions, but, given their membership of failed, failing and weak states, it is, frankly, starry-eyed to see these coalitions as a serious negotiating force in the foreseeable future.

The silver lining is that there are about 20–25 first-division developing countries with increasing trade policy capacity that are increasingly integrated into world trade and production networks and have accumulated considerable trade negotiating experience dating back to the UR. They have high-profile permanent representatives to the WTO and well-staffed Geneva missions. They are active in WTO committee work, negotiations and dispute settlement.

Pragmatically, the key liberalising and rule-making deals in the WTO must be done by the 30-plus countries (counting the EU as one) that account for around 90% of international trade and foreign direct investment (FDI).<sup>8</sup> This core group must concentrate first on market access in agricultural and non-agricultural goods, and services. After the DR, new issues (such as the Singapore issues, and trade and the environment) should be dealt with multilaterally through opt-ins or opt-outs. This would give developing countries the flexibility to join negotiations only if and when they feel ready to do so. Within this core of 30-plus, there is an inner core of the developed and developing country majors: the US, EU, India, Brazil and China (with South Africa on the margin). Their constructive leadership is vital. Without it, nothing will move.

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<sup>8</sup> Wolf M, 'The abominable no-men menacing world trade', *Financial Times*, 24 September 2003.

Post-UR, positions have shifted within this inner core. Firstly, Brazil, India and China are becoming noticeably more powerful. Secondly, the old understanding of an EU-US duopoly driving the GATT/WTO enterprise no longer works. Its last gasp was the failed attempt to pass a joint EU-US agricultural framework before Cancun (which triggered the formation of the G20). The leadership credentials of the EU are on the decline owing to its too defensive position on agriculture and too offensive position on environmental standards and other issues. Up-front US leadership, but only in tandem with *genuinely* two-way 'coalitions of the willing', could be a better outcome.

The remaining 100 or so developing countries should be accorded generous S&D. Through the MFN mechanism, they should have rights to whatever liberalisation is negotiated by others; and preferably duty- and quota-free access to OECD and leading developing country markets. At the same time, they should not be obliged to reciprocate, nor should they be under pressure to sign up to other new obligations. There could be a 'peace clause' on dispute settlement: an understanding that such countries will not be taken to court, even if they are in breach of existing obligations. Finally, WTO members could settle on a 'graduation' principle: an understanding that if countries reached a certain level of development, they would be expected to participate in reciprocal negotiations and adhere to stronger rules and obligations. However, these terms should be conditional on the countries concerned not blocking overall negotiating progress. They must be left in no doubt that, as free-riders, they will be on the sidelines, not at the centre of decision making.

Practical politics dictates that such a two- or multi-tier configuration should not be expressed in formal WTO decision-making procedures. That would be unacceptable to

the majority of the membership outside the charmed circle and would be needlessly divisive. Rather, the key decisions must be taken *informally* in smaller, self-selecting groups, followed by broader multilateral consultations and some (but not unlimited) diplomatic give and take. It is probably expedient to preserve a multilateral veneer, but it will take realpolitik behind the scenes to revive decision-making effectiveness.<sup>9</sup>

The unexpected progress in attempts to revive the DR in July 2004 broadly reflects the small club-like pattern sketched above. Firstly, the event took place through a US initiative, *not* a joint EU–US initiative: without US trade representative Robert Zoellick's letter to WTO members suggesting ways of putting a negotiating framework together, nothing would have happened. Secondly, the key discussions were confined to a small coterie — essentially the major powers — well away from the WTO circus in Geneva. Agriculture has, as usual, been the centre of attention; and it was the US; the EU; the G20 majors, especially Brazil and India; and Australia (on behalf of the Cairns Group) that dominated the discussions.<sup>10</sup>

Asymmetries in decision making are already reflected in a new approach to S&D, with the EU offer to give the G90 a free ride in this round. Critics point out that the G90 has been mis-categorised, including countries (such as South Africa and Mauritius) that are not in the least-developed or low-income brackets. Its classification also smacks of constitutional

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<sup>9</sup> For a detailed consideration of controversies around this issue and strong argument in favour of 'mini-ministerials' as a crucial manifestation of this imperative, see Wolfe R, 'Informal political engagement in the WTO: Are mini-ministerials a good idea?' in Ciuriak D & JM Curtis (eds), *Trade Policy Research*. Ottawa: International Trade Centre, 2004.

<sup>10</sup> See the following *Financial Times* articles: 'Zoellick's letter: Key points', 13 January; 'Zoellick set to call for all-out effort on Doha Round', 10 May; 'Doha redivivus', 11 May; and 'Hopes rising for restart of Doha world-trade talks', 15–16 May.

formality, which is unnecessarily divisive and may obstruct progress. An informal, flexible approach may be more savvy: the general principle of treating developing countries differentially should be accepted; but the extent of S&D given to particular countries could be left to negotiations. In sum, if the WTO as a negotiating forum is to retain relevance beyond the DR, its members must negotiate agreements that are specific, focused and enforceable, not ones that are all things to all constituencies.

The viability of many of the old and new coalitions mentioned above depends substantially on the behaviour of the developing country majors: China, India, Brazil and (to a lesser extent) South Africa. The influence of the first three in the WTO is increasing all the time, which is a reflection of their growing political and economic power in the world.

## **Developing Country Majors in the WTO**

This section focuses on the developing country majors in WTO negotiations and their participation in multicountry coalitions in the light of their overall trade policies and policy-making capacities.

### **China (in the East Asian context)**

The massive Chinese trade and investment liberalisation over the last decade, first through enormous unilateral liberalisation *before* WTO accession, and later supplemented by WTO commitments, is worth mentioning.<sup>11</sup> Astounding trade and

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<sup>11</sup> This section draws on Sally R, 'China's trade policies and its integration into the world economy', paper prepared for the IGD/SAIIA SACU-China Workshop, Johannesburg, 28-9 September 2004. See also Wolf M, *Why*



FDI numbers (for example, a trade-to-gross-domestic-product (GDP) ratio of 70%, with 60% of trade generated by affiliates of foreign-owned firms) indicate that China is in the unique position of being the world's most populous country but with the real-economy openness of a small-to-medium-sized country.

China's strong WTO commitments exceed those of other developing countries by a wide margin and are often comparable with developed countries. These comparisons hold not only for tariff ceilings on goods (including agricultural goods), but also for border and behind-the-border NTBs in goods *and* services. The Chinese implementation record so far is reasonably good, notwithstanding understandable hiccups and teething problems. China's unilateral reforms and WTO commitments, its integration into the global economy and its clear-cut comparative advantage in labour-intensive manufactured exports give it a strong market access focus in the WTO. Paradoxically, this puts it in select company with small, open economies like Hong Kong, Singapore, Australia, New Zealand and Chile — all strong unilateral liberalisers that have big stakes in open markets worldwide, underpinned by well-functioning, non-discriminatory rules. China is least

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*Globalisation Works*. London: Yale University Press, pp.144–5, and Wolf's excellent columns on the China phenomenon in the *Financial Times*; Lardy N, *Integrating China into the Global Economy*. Washington, DC: Brookings Institution, 2002; Ianchovichina E & W Martin, 'Economic impacts of China's accession to the World Trade Organisation', *World Bank Policy Research Working Paper No. 3053*, May 2003; Ianchovichina E & W Martin, 'Trade liberalisation in China's accession to the World Trade Organisation', *World Bank Policy Research Working Paper No. 2063*, June 2001. The latter two papers available at <http://www.worldbank.org>; and WTO, *Report of the Working Party on the Accession of China and Draft Protocol on the Accession of the People's Republic of China*, and attached annexes with schedules of concessions on goods and services, in WT/MIN(01)/3, available at <http://www.wto.org>.

interested in getting into endless griping about injustices perpetrated by the North or Third World solidarity; its primary goal is to ensure increased market access for products in which it has export advantage.

China has operated in the DR discussions quietly but efficiently. It has been particularly careful not to antagonise the US — plainly evident in the charged atmosphere of Cancun. Its overall negotiating position is that, having already made such extensive liberalisation commitments, and with a sizeable implementation burden, it is not willing to concede much more in this round. It argues that newly acceded members of the WTO should be given special consideration in multilateral liberalisation formulas. This is alluded to in the Doha mandate; and it is specifically recognised in the annexes on agricultural and non-agricultural goods in the July 2004 framework for future negotiations.<sup>12</sup> China's negotiating positions on specific issues are mixed: offensive here, defensive there, and in between here and there. Also, China is still in listening and learning mode as a new member of the club. That is one reason

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<sup>12</sup> See WTO, 'Proposal on flexible provisions for recently acceded members', WT/MIN(03)W/8, 4 September 2003; 'Ministerial declaration', WT/MIN(01)/DEC/W/1, 14 November 2001; and 'Doha Work Programme: Decision adopted by the General Council on 1 August 2004', WT/L/579, all available at <http://www.wto.org>. In the latter document, Annex A ('Framework for Establishing Modalities in Agriculture'), para. 47 states that: 'The particular concerns of recently acceded members will be effectively addressed through specific flexibility provisions'; and Annex B ('Framework for Establishing Modalities in Market Access for Non-Agricultural Products'), para. 11 states that: 'We recognise that newly acceded members shall have recourse to special provisions for tariff reductions in order to take account of their extensive market access commitments undertaken as part of their accession and that staged tariff reductions are still being implemented in many cases. We instruct the Negotiating Group to further elaborate on such provisions.'

why it does not appear as publicly proactive as India and Brazil.

In the non-agricultural market access negotiations, China's interests are manifestly offensive: it needs greater access for its manufactured exports. This is by far the main area where it is looking for multilateral liberalisation by both developed *and* developing countries. But China's positions are mixed on agriculture. Domestic compulsions restrict it from committing itself to substantial extra liberalisation. On the offensive side, it needs lower developed and developing country tariffs, NTBs and agricultural subsidies in order to boost its agricultural exports. Hence despite joining the G20, it maintains a low-key operation. It is defensive with regard to services, with few export interests; and is reluctant to concede to significantly stronger General Agreement on Trade in Services (GATS) commitments owing to domestic political sensitivities (though this would still leave it free to liberalise unilaterally). However, in some cases its existing GATS commitments even exceed those of developed countries (for example, in maritime and audiovisual services, transparency obligations and cross-border movement of business personnel).

One of China's biggest priorities concerns anti-dumping. It is active in the anti-dumping component of the rules negotiations and has tabled proposals, mainly with a view to removing, or at least diluting, its non-market economy status (covered by GATT Article VI:I second para.). China is flexible on S&D. It defends developing countries' right to be treated preferentially, but is far from extreme or militant on the issue. It is equally flexible on the Singapore issues. It kept its distance from the developing country militant tendency, led by India and Malaysia, right up to Cancun. It is comfortable with the July 2004 compromise to proceed with trade facilitation while

leaving the other three issues (investment, competition and transparency in government procurement) out of negotiations.

Once China gets over the post-accession listening and learning phase, it should be more proactive in tabling proposals, co-operating with other majors, participating in large and small coalitions (such as the G20 and issue-based Friends Groups), helping to overcome inter-member differences and breaking logjams, and coming up with creative solutions. Its practical, diplomatic, problem-solving, system-supporting skills should be used more vigorously. Stronger US–China collaboration in the WTO would be particularly welcome.

China also has an active FTA strategy, directed mainly at its East Asian neighbourhood. Its ambition is to displace Japan as the leading regional political and economic power. The China–ASEAN FTA, initiated by Beijing, is likely to be in place by 2010 (2015 for the new ASEAN members). The mini-FTA with Thailand and FTA with Hong Kong are already in place, and discussions with newer potential partners are ongoing. China recently announced its preference for a pan-East Asian FTA encompassing ‘ASEAN Plus Three’ (the three being China, Japan and South Korea). China has also launched FTA initiatives outside the region, notably with South Africa.

A key component of China’s FTA strategy is to get wider acceptance of ‘market economy status’, especially with anti-dumping actions in mind. As mentioned earlier, China is pushing hard for removal of non-market economy status in the WTO, and bilaterally with the EU and US. A number of countries, including Singapore, Malaysia, Thailand and other ASEAN countries, New Zealand, Australia, Brazil and South Africa, have already accorded China market economy status.<sup>13</sup>

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<sup>13</sup> ‘China full market economy: ASEAN’, *Straits Times*, 7 September 2004.

It is not accidental that China is in or talking about FTA negotiations with the countries that have conceded market economy status.

The contrast between China's FTA strategy and those of other powers in the region is instructive. Japan seems to be reacting to China's advance, but without a real strategy. Unlike China, it is defensive on agriculture and appears not to be interested in ambitious market access coverage. Also in contrast to China, it seems to prefer bilateral deals with individual ASEAN countries. South Korea's profile is similar to Japan's. India is also hardly ambitious on market access coverage and is pushing for restrictive rules-of-origin requirements. In all, China, not Japan, India, South Korea or ASEAN, is making the running on FTAs in Asia, with words and deeds.

### **India (in the South Asian context)<sup>14</sup>**

India is the most protectionist of the four developing country majors in the WTO. The comparison with China is revealing. China's WTO-bound simple average tariff is 9.6% (13% on agricultural goods), and its average import-weighted tariff is under 7% (less than 6% now for manufactured goods). In contrast, India had an average applied tariff of 30.4% (before tariff reductions in the last two years), with considerable tariff dispersion and escalation. Its WTO-bound average tariff is 50% (much higher on agricultural goods), with many tariff lines unbound. China's commitments on classic NTBs on goods trade (export and import licensing, quotas, specific tendering requirements), trading rights, state-owned enterprises and state trading enterprises, and industrial and agricultural

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<sup>14</sup> This section draws on Sally R, 'ASEAN in the WTO' and Hoda R, 'India in the WTO', both in Asher M, S Rajan & R Sen (eds), *ASEAN-India Cooperation*. Singapore: ISEAS, 2005.

subsidies are all stronger than India's. China's GATS commitments are very strong compared with India's weak commitments. Equally strong are China's transparency obligations (on notification, enquiry points, time for review and comment), buttressed by administrative- and judicial-review mechanisms.

While the other three developing country majors are generally pragmatic and flexible, balancing offensive and defensive positions, but with discrete market access priorities to advance, India is defensive almost across the board. Its one offensive position — on GATS Mode Four commitments for the cross-border movement of skilled personnel — has been lost in a fog of inflexible, defensive positions on market access, implementation, S&D and the Singapore issues. It is perhaps the chief obstacle to meaningful South–South negotiations on market access, limiting flexibility in the G20's negotiating position on agriculture.

There are signs that this unconstructive state of affairs may be about to change. Indeed, some of India's negotiating positions have budged a little. It has not taken an especially hard line on exempting special products from overall agricultural liberalisation (unlike Indonesia and the Philippines in the G33). It supported the 'Girard formula' for tariff cuts on non-industrial goods and has crafted bold offensive positions in the GATS negotiations, on the back of new comparative advantage in services such as software and outsourced business process outsourcing (BPOs). Interestingly, it is doing so in alliance with the US.

An optimist would argue that India is gradually shedding its traditional scepticism of multilateral liberalisation, which would fit logically with the progressive opening of the Indian economy since 1991 and the recent acceleration of trade, FDI and related economic reforms (such as privatisation and the

deregulation of services sectors). Most visibly, the maximum industrial tariff has been brought down to 15%, with the intention of streamlining it into three bands (0%–5%–15%) in due course. It is to be hoped that accelerating unilateral reforms will, in the not-too-distant future, lead to a decisive shift of positions in the WTO, bringing India closer to the flexibility and pragmatism displayed by the other developing country majors. This would send powerful signals to other WTO members. India has the potential to change coalition dynamics among developing countries and across the developed–developing country divide. However, its track record of alliances in the WTO remains overwhelmingly defensive, for example, on S&D and implementation in the Like-Minded Group and the G15, on the Singapore issues with Malaysia and others, and on emergency safeguards in services. These are marginally offset by its participation in the G20, and the emerging offensive coalition with the US on services.

India is pursuing a number of new FTA initiatives, and is more proactive in its South Asian backyard, especially with the South Asian FTA (SAFTA). An FTA with ASEAN is to be concluded by 2011; a Framework Agreement with Thailand is already in place; and negotiations with Singapore are to be concluded soon. Exploratory talks are in progress with others, notably the Southern Cone Common Market (Mercosur), China and South Africa (via the Southern African Customs Union — SACU). However, it is broadly unlikely that India would be more flexible on market access in FTA negotiations than it is in the WTO.<sup>15</sup>

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<sup>15</sup> If the unfolding SACU–India FTA is any guide, India will not give much away. See Alves P, ‘Understanding Indian trade policy: Implications for the Indo–SACU free trade agreement’, *SAIIA Trade Policy Report*, 5, November 2005, available at <http://www.saiia.org.za>. See also Julius-Sen ‘Negotiating trade agreements with India: The reality below the waterline’, *SAIIA Trade Policy Briefing*, 8, November 2005, available at <http://www.saiia.org.za>.

### **Brazil (in the South American context)**

Despite being a GATT founder member, Brazil played a defensive role until the UR. This was rooted in its import substitution industrialisation (ISI) development strategy, from the 1960s to the mid-1980s, in accordance with which tariffs were high and the state actively promoted 'winners' through targeted financial and infrastructure support. For much of this period Brazil's export profile was concentrated on a small basket of primary products, notably coffee and various minerals. Therefore the country did not have an identifiable set of offensive interests that could be traded off for access to the Brazilian market at the expense of the ISI strategy. Also, support for South-South alliances with a view to altering the terms of economic engagement with the North was predominant, and Brazil actively sought out key allies in the developing world that shared its vision. Consequently, Brazil's approach to the GATT negotiations, in tandem with India and Egypt and consecrated in the G10 alliance, was to seek S&D from the developed countries in the form of preferences and wholesale opt-outs from negotiated agreements.

The scenario changed after the Tokyo Round, when the US insisted on reciprocity for developing countries and graduation for more advanced developing countries based on per capita GDP, which were strengthened in the UR.<sup>16</sup> Despite initial resistance, as Brazil's offensive interest in the inclusion of agriculture in the GATT grew, it joined the Cairns Group alliance with Australia on the understanding that provisions on S&D would be preserved. Furthermore, mounting domestic economic problems caused Brazil to move for FDI-attracting

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<sup>16</sup> This paragraph is based on Abreu MdP, 'Trade liberalisation and the political economy of protection in Brazil since 1987', Inter-American Development Bank, INTAL-ITD Special Initiative on Trade and Integration, Working Paper No. 08b, April 2004, pp.3-5.



export promotion and cheap imports, and so it signed up to the UR's Single Undertaking, happy with the 'new-style' S&D it contained. This also coincided with the brief, intense and successful liberalisation of the economy between 1990 and 1994. Strategic partnership in the South through regional consolidation, ultimately in the form of Mercosur,<sup>17</sup> was regarded as an important step. Three goals were identified:<sup>18</sup> a managed and balanced expansion of bilateral trade; promoting bilateral investment flows in key economic sectors; and promoting co-operation in areas of critical importance for joint economic development such as energy, transport and technology. Sectoral agreements were initially seen as the primary instrument for pursuing these goals, particularly the capital goods sector, which was regarded as the strategic nucleus. However, Mercosur later became the regional vehicle for implementing the new agenda through wider and deeper tariff reductions.

The Brazilian liberalisation episode suffered substantial reversal from 1994, with successive financial crises in Mexico, Brazil and Argentina contributing to the anti-liberalisation backlash. This took the form of reassertion of powerful sectoral interests mediated through sectoral chambers co-ordinated by the Industry Ministry. This was successful in rolling back liberalisation gains in particular sectors, notably the automotive industry and sub-sectors of agriculture.<sup>19</sup>

Accordingly, Mercosur has not progressed towards further trade liberalisation since 1995, but focuses on external relations and building internal co-ordination mechanisms. In its external

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<sup>17</sup> Formally created by the Treaty of Asunción, signed on 26 March 1991.

<sup>18</sup> See Vaz AC, 'Trade strategies in the context of economic regionalism: The case of Mercosur', Centre for Latin American Studies, University of California, Berkeley, June 2003, Paper No. 4, pp.4–5.

<sup>19</sup> Abreu MdP, *op. cit.*, p.26.

engagements, the bloc now rejects special treatment for less-developed countries, sustains the principles of symmetry and reciprocity, and rejects 'WTO-plus' commitments — especially in the unfolding FTA of the Americas (FTAA) negotiation.<sup>20</sup> So far, therefore, the FTAA negotiation (and to a lesser extent Mercosur's negotiations with the EU) has not undermined processes of regional integration in South America as some critics had feared; rather, it may be reconfiguring an arrangement that may well have blown apart in the absence of powerful external impulses.<sup>21</sup>

Crucially, the primacy of agricultural exports to Argentina and Brazil,<sup>22</sup> and the unwillingness of both the US and the EU to consider reforming their agricultural subsidy regimes outside the WTO context underpin Argentinean–Brazilian participation in the G20. In fact, the WTO is the most important vehicle for Brazil to achieve its goals regarding liberalisation of agricultural trade. The slow progress over agriculture in the DR is the primary reason why both the FTAA and EU talks have not advanced and are unlikely to do so until the Doha gridlock has been unravelled.<sup>23</sup>

From the early 1990s up to Cancun, Brazil's pragmatic diplomacy in GATT/WTO concentrated on trading off

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<sup>20</sup> Vaz AC, *op. cit.* p.21.

<sup>21</sup> For more on this issue, see Phillips N, 'Reconfiguring subregionalism: The political economy of hemispheric regionalism in the Americas', *IPEG Papers in Global Political Economy*, 4, April 2002.

<sup>22</sup> See Jank MS, 'The risks of success', 4 May 2004, available at <http://www.iconebrasil.org.br>.

<sup>23</sup> For more details, see Machado JBM & G Ferraz, 'FTAA: Assessments and perceptions of the Brazilian government and production sectors', *Red Mercosur FTAA Series Brief*, 8, July 2003, available at <http://www.redmercosur.net>; and Zourabichvili A, 'Brazil's position in the Free Trade Agreement of the Americas negotiation process', *SIIIA Trade Policy Briefing*, 5, February 2004, available at <http://www.saiia.org.za>.

defensive positions on industrial goods and services to gain concessions on agriculture. Coalition activity centred on the Cairns Group, in which Brazil played a very prominent role alongside Australia. This changed with the formation of the G20, which has taken centre stage in Brazil's WTO diplomacy. Brazil's leadership of the G20 alliance at and beyond Cancun, in collaboration with India and, more recently, South Africa and China, should be seen as the culmination of a two-pronged strategy: reinvigorating South–South co-operation with a view to changing the rules of the game and opening new markets,<sup>24</sup> and negotiation of agricultural trade concessions with major trading partners through introducing additional leverage.

So far the G20 has been successful in bringing agriculture to the forefront of the Doha agenda, although the ultimate results of this policy still have to be determined. Much depends on Brazil's leadership of the G20 and the interaction of the latter with the Cairns Group (the two having significant overlapping membership). Brazil's willingness to act pragmatically, to compromise and to trade-off will be critical in achieving a breakthrough.

### **South Africa (in the Southern African context)**

Despite having been a founder member of GATT, South Africa is a new actor on the global stage. During the pre-UR period, its application of the ISI model manifested itself in the establishment of strategic industries with paramount military and security considerations. Accordingly, openness to trade

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<sup>24</sup> On the latter, see 'China begins to exert its influence on Latin America', *Financial Times*, 26 September 2003.

was not really on its agenda.<sup>25</sup> Consequently, South Africa's conduct in GATT could best be characterised as defensive. This framework changed in the late 1980s as moves towards a political settlement gathered pace. These developments took place as the UR unfolded. South Africa committed itself to a major overhaul (simplification and liberalisation) of its complex tariff regime and signed up fully to the Single Undertaking. S&D did not play a role during this period because South Africa was regarded as a developed country and the apartheid government firmly regarded itself as playing in that league. Undergirding South Africa's commitments and participation in the UR was the strong need to overcome the isolation of the 1980s and the need to promote economic competitiveness. This culminated in the more rapid liberalisation of tariffs than required in terms of South Africa's GATT obligations.

Given that the UR was complete when the African National Congress (ANC) came to power in 1994, the trade liberalisation trajectory turned to bilateral and regional tracks. Relations with the EU were high on the agenda, given the preponderance of EU markets in South Africa's export basket. When the government realised that the EU was not going to grant it full access to Lomé preferences, it decided to negotiate a comprehensive agreement covering trade, aid and political co-operation.<sup>26</sup> A four-year negotiation resulted in a final agreement covering 'substantially all trade' that was asymmetrical in two respects: EU markets were opened first, and to approximately 95% of South African exports versus 85%

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<sup>25</sup> For an overview of this period, see Bell T, 'Trade policy' in Michie J & V Padayachee (eds), *The Political Economy of South Africa's Transition*. London: Dryden Press, 1997.

<sup>26</sup> Signed in October 1999, this was known as the Trade, Development and Co-operation Agreement.

in return.<sup>27</sup> This experience, and the new government's policy trajectory in support of developing countries, constituted a substantive shift from the previous government's general approach to trade negotiations. However, many ACP states were concerned about the precedent this agreement set for the future of their relations with the EU, given the unfolding Economic Partnerships Agreement negotiations taking place under the Cotonou Convention. This unfortunate situation sowed seeds of distrust in the Africa Group regarding South Africa's intentions with respect to its broader trade relations strategy.

The second pillar of the regional/bilateral strategy was negotiations with the countries of the Southern African Development Community (SADC) to form an FTA. Approximately one-third of South Africa's manufacturing exports go to SADC countries, hence locking in market access was a key motivation. Once again, these negotiations proved divisive, given the presence in the region of the Common Market of Eastern and Southern Africa (Comesa) and associated overlap in memberships. South Africa's decision to opt for SADC over Comesa was widely resented by many countries in the region, which came to the view that South Africa simply wanted to work with a grouping it could dominate.<sup>28</sup> This experience, coupled with the new government's subsequent support for launching the new round of multilateral negotiations notwithstanding generalised resistance in the Africa Group, has bequeathed a legacy of

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<sup>27</sup> For details and analysis, see Bertelsman-Scott T, G Mills & E Sidiropoulos, *The EU-SA Agreement: South Africa, Southern Africa, and the European Union*. Johannesburg: SAIIA, January 2000.

<sup>28</sup> In South Africa's defence, it is important to note that the region was, and remains, divided on which regional grouping was better suited to promote regional economic integration. Thus the situation was not of the South African government's making.

mistrust of the South African government's intentions in the region. Nonetheless, the FTA was concluded in 2000, and was also asymmetrical along the lines of the negotiations with the EU, excepting that South Africa opened first and more comprehensively, with many countries in the region backloading their liberalisation schedules.

The third dimension was renegotiation of the SACU agreement as the basis for South Africa's global strategy. Talks were concluded in 2001, and the agreement came into force in July 2004. This agreement is of historic significance as it commits South Africa to effectively ceding sovereignty over trade policy formulation and implementation to new intergovernmental institutions, which have yet to be established. In essence, all decisions over tariffs and trade remedies will be taken at the SACU level by a council of ministers, advised in turn by a new SACU tariff body and a commission of senior officials. If faithfully implemented, SACU decision making will be democratised..

The fourth dimension is negotiation of new FTAs. These are divided into two tracks. Track one is currently under way, and covers the US, Mercosur and EFTA. Track two targets Asia, including India, China, Singapore, South Korea and Japan. Negotiations with the US in particular have run into serious difficulties concerning trade liberalisation in general and the latter's 'WTO-plus' approach to trade negotiations.<sup>29</sup> To some extent it also reflects the South African government's desire, in common with Brazil, to pursue strong alliances with key developing countries in order to balance US power.

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<sup>29</sup> See Draper P & M Soko, 'US trade strategy after Cancun: Implications, and prospects for the SACU-US FTA', *SAlIA Trade Policy Report*, 4, February 2004, available at <http://www.saiia.org.za>; and Draper P, 'The SACU-US FTA: In search of a contract zone', 'The Exporter', *Business Day* supplement, June 2004.

Membership of the G20 alliance in the WTO was therefore a natural geopolitical strategy for the South African government and may have served the purpose of developing such alliances more than the desire to promote agricultural market access. The latter is important, but hardly critical, to South Africa's export trajectory, accounting for a small proportion (approximately 10%) of the overall export basket, whilst agriculture constitutes a smaller proportion of GDP.

Of far greater importance is securing access to markets for South Africa's burgeoning intermediate manufacturing exports and liberalisation of services sectors to enhance the country's outward investment thrust into African markets in particular. The manufacturing export interest pits South Africa directly against the G90, which favours continued preferential access to developed country markets.<sup>30</sup> The services interest, on the other hand, somewhat perplexingly pits South Africa against the Africa Group.<sup>31</sup> Meanwhile, S&D and the implementation agenda — priorities for the G90 and associated common-characteristic coalitions — have received persistent rhetorical lip service but little sustained support from South Africa. Overall, therefore, South Africa's offensive agenda pits it against the ACP-LDC and Africa groupings and places it firmly in the ranks of the G20 and, to a lesser extent, the Cairns Group.

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<sup>30</sup> See the speech to Parliament on 26 September of Alec Irwin, then South African Minister of Trade and Industry, for a strong statement of this view.

<sup>31</sup> The Africa Group, representing countries in desperate need of foreign investment in core infrastructure services, should be encouraging its members to unilaterally liberalise such services whilst welcoming any FDI they receive — especially from neighbouring South Africa. Instead, persistent complaints are made that South Africa is the new colonialist on the block, whilst defensive positions on services are adopted in the WTO.

## Conclusion

The overall picture is of drift and crippled decision making in the WTO, at least since Seattle. The July 2004 framework is little more than a holding operation. A market access focus and the restoration of businesslike decision making are needed to conclude the DR and secure the WTO's future as a viable trade negotiating forum.

Defensive, one-sided pan-developing country alliances are wrong in principle and unlikely in practice. The G77-type diverse alliances were logical in a world of import substitution policies and the Cold War, but are illogical and archaic in the present setting. Like the UN General Assembly and UNCTAD, they serve little purpose but to highlight Northern iniquities and otherwise indulge in rhetorical flourishes.

Common-characteristic alliances among poor-income developing countries, such as the Africa Group, have more utility and are a more important feature in the WTO, especially at ministerial conferences. They bring legitimate issues to light, especially on developed country agricultural protectionism (cotton subsidies, for instance). But there are distinct limits, owing to a combination of overwhelmingly defensive positions (on tariff preferences, implementation, aid and more generally on S&D), lack of negotiating capacity, and, underlying everything, bad policies and weak-to-terrible institutions at home among alliance members. These alliances can contribute to the WTO's decline by blocking operations, but are unlikely to be central players in finding constructive solutions.

This leaves the WTO with a core of 30-plus developed and first-division developing countries, with an inner core of developed and developing country majors. As for the developing country majors, signs of convergence can be detected. All have switched to outward-oriented trade policies



as part of market-based policy reforms; have integrated faster into the world economy; exhibit more mature, constructive relations with the developed world —particularly with the US; and are trying to cement new alliances in the developing world, notably with each other. Finally, all are playing more forward-looking, ‘system-maintaining’ rather than ‘system-wrecking’ games in international institutions. This is one fundamentally novel feature that distinguishes the politics of the WTO from that of GATT.

Arguably, China has mastered this foreign policy strategy better than the others, and in a remarkably short time. It has been an exemplary WTO citizen, building on its huge market-based reforms, global economic integration and WTO commitments. Brazil and South Africa, with very different regional backyards, are also well positioned to pursue multiple coalition strategies, but they do not play this game as skilfully or as coherently as China. Internal divisions, regional tensions and contradictions, and vestigial North-vs-South ideological baggage sometimes put them on the back foot. On these occasions they defend protectionist positions, consequently compromising legitimate offensive export market concerns. India is the laggard among the four, although its market-based reforms have come far since the early 1990s. But, at least until very recently, it has played the old, defensive North-vs-South game in the WTO — often in surreal disconnection from economic policies at home and ‘high-politics’ foreign policy. However, there are incipient and promising signs of change, with marginally less-defensive positions on agricultural and non-agricultural market access (NAMA), and noticeably more-offensive positions on services.

If a successful outcome on agriculture were achieved, then a G20 model could conceivably work in other areas. According to some commentators, Brazil, India and South Africa could then

find common ground on the NAMA negotiations, specifically resisting deep cuts in their respective industrial tariffs. Notwithstanding its offensive interests, China is similarly reluctant to make further commitments, in light of its extensive accession obligations. So a replication of the G20 alliance in the NAMA negotiations cannot be ruled out, if the common need to counter US and EU economic power persists.

Services negotiations by the G20 is another major possibility, in line with Brazil's apparent deal with India: Indian support in the agriculture negotiations will be reciprocated through Brazilian support in the GATS Mode Four negotiations. The arrangement may also find support from the ACP Group, although given its current anti-immigration stance, South African support is unlikely. It may be more forthcoming from China, which has an offensive position on Mode Four in the current services negotiations.

In sum, issue-based G20 alliances beyond agriculture are conceivable. The easiest option would be to construct defensive alliances on an Indian–Brazilian axis, for example, on industrial goods and S&D. But this would diminish bargaining power overall and further polarise politics in the WTO. China would be highly unlikely to clamber aboard — unless external and internal circumstances conspire to bring about a volte-face in its economic and foreign policies. South Africa too would be sceptical. Offensive G20 alliances are conceivable too, but would have to overcome big protectionist obstacles in India and Brazil. Ideally, flexible and overlapping G20-style friendly formations would emerge on market access and rules negotiating issues, alongside a mutually reinforcing interplay with the Cairns Group on agriculture.