



## INTERNATIONAL TRADE AND HEALTH: BEFORE AND AFTER CANCUN

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### INTRODUCTION

International trade is potentially critical in stimulating increased production, economic growth and poverty reduction. For this potential to be achieved, transparent and equitable international rules are necessary together with national policies clearly oriented towards social objectives and resource redistribution. Economic globalization, so far, seems to have produced more inequalities both between and within nations. The World Trade Organization (WTO), as it is currently structured and ruled, is a tool in the hands of powerful nations used to perpetuate their dominance on international trade. It should, rather, be a forum where inequities and inequalities are corrected to the benefit of millions of people struggling with abject poverty around the world. The recently collapsed WTO Conference held in Cancun Mexico, offers an opportunity for some few considerations on the present state of world trade, its uncertain future and the possible implications of this for the livelihoods of the world poor.

### THE WORLD TRADE ORGANIZATION

The WTO was borne in 1995, when it replaced the GATT (General Agreement on Tariffs and Trade) which lasted since 1947. The Organization, based in Geneva, is supposed to manage the world trade on the basis of four main principles:

1. Expanding trade concessions to all member states
2. Establishing freer global trade
3. Making trade fairer by establishing clear rules
4. Making trade more competitive by removing subsidies

The WTO has 146 members (two more, Cambodia and Nepal, were admitted at the Cancun Conference). Decisions are supposed to be taken by explicit or implicit consensus. Explicit consensus is that expressed by members present at a given meeting and "explicitly" supporting a given decision. Much more controversial is the concept of "implicit consensus" this means that countries not participating at a given meeting are supposed to have accepted a given decision (accepted by all the participants) and are bound to respect it. In theory, the WTO functions in a very democratic way, since each member state has the right to vote and all votes have equal value. There are no countries with a bigger clout than others like in the World Bank, the International Monetary Fund or, even, the Security Council. In practice, behind the scenes negotiations and political pressures make the whole decision making process much less "democratic" than it could seem. Consensus is often achieved through "informal" procedures putting poor countries at a disadvantage. At the WTO Headquarters, poor countries have permanent delegations formed, on average, by less

than four persons. The average size of rich countries delegations is between seven and eight.<sup>1</sup> This is not an irrelevant detail, given the high number of meetings taking place at the same time: small delegations cannot be represented in all of them. By consequence, they are often excluded from important discussions and decision making processes. About 90 % of the WTO personnel comes from rich countries and only 10 % of it comes from poor countries.<sup>1</sup> So, in spite of its apparent democratic way of functioning, even within the WTO some countries are "more equal than others". Much more equal.

### THE CANCUN CONFERENCE

From September 10<sup>th</sup> to September 14<sup>th</sup> about 2,000 delegates of its member states gathered in Cancun, Mexico, for the 5<sup>th</sup> Ministerial Conference of the WTO. Many important issues were at stake. Arguably the most important one was to verify if the WTO can work effectively to reduce poverty through a fairer world commercial system. At the last WTO Ministerial Conference, held in Doha, Qatar, in November 2001, several problems were left unresolved. An optimistic deadline to achieve an overall agreement was set for January 1<sup>st</sup> 2005. Cancun was supposed to be an important step towards that goal. After Doha, however, there has been very little progress towards solving such problems as agricultural incentives and dumping, trade barriers, trade-related intellectual property rights, the postponement of discussions on foreign investment. Not one single deadline set to solve these issues before Cancun has been met. To make real progress in Cancun, a high degree of willingness and ability to compromise was necessary, especially on the side of rich and powerful nations. In practice, as events have shown, these nations had no intention of being flexible. After five days of bitter arguments about old and new issues, the news of the total failure of the talks came on the afternoon of Sunday September 14<sup>th</sup>.

### AGRICULTURAL SUBSIDIES

The issues on the table were many and of great importance for the future of world trade. Prominent among them was the one of the huge subsidies paid by the United States (US) and the European Union (EU) to their farmers. Such subsidies amount to more than 360 billion dollars per year, about one billion dollars per day.<sup>2</sup> Costs of production of farmers in rich countries are much higher than those of the farmers in poor countries. The huge subsidies of their governments allow them to, literally, "dump" their products on the international market at artificially low prices. The agricultural products of poor countries farmers cannot compete with the artificially low priced products of rich farmers. The end result is that hundreds of thousand of poor farmers are trapped in a vicious cycle of persistent poverty.

According to the International Food Policy Research Institute (IFPRI), poor countries lose about 24 billion dollars per year because of trade barriers and agricultural subsidies put in place by rich countries.<sup>3</sup> Countries in Sub Saharan Africa are particularly affected given their greater dependence on agriculture and the greater proportion of their population living in rural areas.

One exemplary case, powerfully brought to the international attention by Burkina Faso, Benin, Chad and Mali before the Cancun Conference, is the one of cotton. The US government spends about four billion dollars per year to subsidize its 25,000 cotton producers. The European Union, producing only about 2 % of the world cotton, spends about 700 million dollars per year to subsidize its cotton producers (especially Greece and Spain). As a result, the price of cotton on the world market is lowered of about 25 %.<sup>4</sup> In 2001, cotton producers in Sub Saharan Africa lost about \$302m as a consequence of US cotton subsidies. Benin, Burkina Faso, Mali, Cameroon, and Côte d'Ivoire suffered most because of the small size of their economies and their heavy dependence on cotton production and export. The subsidies paid by the US government to its 25,000 cotton producers cause economic losses which are higher than the financial aid given by the same government to the worse affected countries. For example, in 2001, Mali received 37.7 million dollars from the US but lost about 43 million dollars because of cotton subsidies. The same year, Benin received about 15 million dollars from the US and lost 33 million dollars because of the US cotton subsidies.<sup>4</sup> As said, the American cotton growers, benefiting from government subsidies, are about 25,000. The cotton growers whose livelihood is at risk because of the same subsidies are little less than 11 million only in Africa.

Another example of agricultural subsidies with disastrous consequences on the poor is the one of sugar, of which the EU is the biggest world exporter. Producing sugar in EU countries costs about three times as much as producing it in countries like, for example, Brazil, Colombia, Guatemala, Malawi and Zambia. The huge subsidies paid to European sugar producers lead to a surplus production of about 700 million tons that glut the world market lowering the price of sugar by about 20 %.<sup>5</sup> Sugar growers represent only about 4 % of the European farmers, but their lobby is very powerful. Once again, the big losers are millions of poor farmers in developing countries.

Table 1, below, shows that the European Union and Japan, subsidizing their dairy industries, spend more money per cow, per year, than they spend in aid, per person, per year, in Sub Saharan Africa.<sup>6</sup>

At the UN Conference for Least Developed Countries, in May 2001, the EU launched its "Everything but Arms" initiative (EBA). In its framework, all non military products coming from Least Developing Countries (LDC) should have had immediate duty free access into the EU market. Because of intense and powerful lobbying, and notwithstanding the declarations of many EU member states, not much progress has been made in the last two years.<sup>7</sup>

TABLE 1: ANNUAL SUBSIDY PER COW AND AID PER PERSON TO SUB SAHARAN AFRICAN COUNTRIES BY EU AND JAPAN

	Annual subsidy per cow	Annual aid per person to Sub Saharan African Countries
European Union	913 US \$	8.00 US \$
Japan	2,700 US \$	1.47 US \$

Source: UNDP Human Development Report 2003 (modified)

### TRADE BARRIERS

Another highly publicized issue was the one concerning trade barriers imposed by both, rich and poor countries, to imported manufactured goods. The United States, the European Union and Japan ask poor countries to liberalize imports, that is, to lower their custom duties on imported goods. Many poor countries, especially those becoming increasingly industrialized, like Brazil and China, maintain that they cannot do it because they have to protect their young industrial sector. On the other hand, rich countries themselves keep in place many trade barriers to cheap manufactured goods produced by poor countries. Not only that. Higher tariffs are regressively applied to poor rather than to rich countries. For example, the trade barriers faced by poor countries like Cambodia and Viet Nam, exporting to the US are, on average, four times higher than those faced by industrialized countries, like France and the Netherlands. Again, Bangladesh exports about \$2.4 billion to the United States each year and pays, on average, 14% in tariffs—while France exports more than \$30 billion and pays, on average, 1% in tariffs.<sup>2</sup>

This tariff system is iniquitous before even being inequitable. It undermines poor countries industries and exports in the very areas where they have a comparative advantage and are able of producing at good quality and low cost levels, like, for instance, agriculture and textile. Many trade barriers seem to be purposefully shaped in order to hamper the development of industries, in poor countries, that would add value to the raw materials they produce. Let's take the example of cocoa. Raw cocoa, of which Ivory Coast, Ghana and other African countries are among the world major producers, faces no tariffs in the markets of the EU and Japan. Final products made from the transformation of cocoa, face tariffs of 30 % in the EU and 21,7 % in Japan<sup>8</sup>. Once again, the gap between preaching and practicing the "free market Gospel" is very wide. The World Bank itself condemns the system of agricultural subsidies and trade barriers put in place by rich countries.<sup>8,9</sup> It estimates that a good, equitable and "pro-poor" international trade agreement could lead to 520 billion dollars gains for poor countries and lift about 144 million of poor people out of poverty by 2015.<sup>8</sup> There is a fundamental difference in the relationship that the World Bank (and the International Monetary Fund –IMF–) has with rich and poor countries. Poor countries are often forced to accept the "advises" of the Bretton Woods institutions lest they loose vital access to loans and grants. Rich countries can happily ignore "advises" and "condemnations" coming from the same Institutions. And they do.

### THE REAL ISSUES: THE SINGAPORE ISSUES

Reporting on the Cancun Conference, the majority of the media, in rich as well as in poor countries, devoted their attention almost entirely to agricultural subsidies and trade barriers. As important as they are, they were not the only issues discussed in Cancun. Arguably, they were not even the main ones. As a matter of fact, the conference collapsed because of the disagreement on other issues: the so called "Singapore issues". These are problems first discussed in the WTO Ministerial Conference that took place in Singapore in 1997. Since then, no agreement has been worked out. They are:

1. Liberalization of investments
2. Open competition between national and non national actors

3. Opening up of government procurement to foreign companies
4. Trade facilitation: significantly simplifying customs procedures

These so called "new issues"(not really new) remain somehow obscure. Poor countries, internationally weaker, with weaker government and administrative structures, fear that giving way in these four issues would mean giving away a significant amount of their sovereignty not only to foreign governments but also, and mainly, to big and extremely powerful Transnational Corporations (TNCs). Foreign Direct Investment (FDI) can play an important role in promoting economic growth and poverty reduction. It all depends on the type of investment and, even more, on the regulatory capacity of host countries. In a liberalized and deregulated environment, TNCs would acquire a disproportionate amount of power in poor countries. If the example of Firestone in Liberia is something to go by, this fear seems to be more than justified. In 1926 the government of that country, to pay its heavy debts with American and British banks, gave to American Firestones full rights to exploit a rubber plantation of about one million acres. This American corporation became so powerful and politically influential in Liberia that the country was known, for many years, as "The Firestone Republic".

Open competition and trade facilitation mean that foreign economic actors, in all fields, should be treated in the same way as national ones. Once again, in poor countries, this could lead to unbalanced competition and undue foreign influence building up over time. The same can be said of opening up government procurement, whereby governments should buy whatever they need through international tenders. The supporters of it maintain that this would eliminate corruption from government transactions...as if big international companies had no potential for or, indeed, no solid records of, corrupt dealings. According to several analysts, the "Singapore issues" were the heart of the matter in Cancun, while agriculture, although very important, was, in the circumstance, more of a diversion. Major problems such as price fixing, collusive tendering, tax avoidance, environmental damage, violation of labor rights, must be analyzed and discussed in detail. Safeguard measures must be worked out together with effective mechanisms to enforce them. Poor countries are not yet ready to discuss these issues when other, more important to them, are far from being solved. The insistence of rich countries, especially the EU, to discuss the Singapore Issues led to an overloaded agenda in Cancun and was the most important reason for the collapse of the conference.

#### The G20 +

To many, the real surprise that came from Cancun was the alliance of poor countries that stood up against the attempts of breaking it put in place by the EU, the USA and Japan. The so called G 21 (Group of 21 nations), comprising of 21 countries led by Brazil, China, India and Kenya, was able of maintaining a common position not only despite external pressures but, surprisingly, despite often diverging interests.

The expression "poor countries" is often and superficially taken as representing a "community" of nations somehow homogeneous in its characteristics and interests. As a matter of fact, the interests of Brazil, China and India differ substantially from those of, say, Burkina Faso, Chad and Mali (it is little publicized, but China is also subsidizing her cotton growers, although at a lesser extent than the USA and the EU). Under previous agreements, rich countries are supposed to open up their markets of textiles and clothing by 2005. China has a huge textile industry producing at good quality levels and very low costs (mainly because of low labour costs). Come 2005, it is very likely that many jobs will be lost in the textile industry of many rich and poor countries alike because of the strong Chinese competition (the volume of US imports from China increased 125 % since she joined the WTO in 2001). The export of agricultural products is much more important for Brazil than for India. This means that Brazil needs an agricultural trade deal much more than India. Notwithstanding these and other different interests, the G 21 did not falter in Cancun. The question, now, is how long will this alliance hold against the attempts to disrupt it that will, certainly, be put in place. Some countries are already opting out of it (see below) while others are showing interest in joining in. Some observers already call this group "G 20 +" rather than "G 21", since the number of countries within it is not really clear and seems to be changing very rapidly.

#### THE DANGER OF BILATERAL OVER MULTILATERAL AGREEMENTS

For "poor countries" this was an important victory, concrete and symbolic at the same time. Concrete because, thanks to the common position, no unbalanced agreements were imposed. Symbolic because the poor defeated the rich.

Some analysts are less adamant in calling the outcome in Cancun a "victory" for poor countries. According to them, an incremental deal would have been better than the breakdown of talks. Cancun was a missed opportunity to start transforming world trade so that it can really benefit everybody and not only the rich and the powerful. The danger, now, is that powerful countries will opt for a series of bilateral "Free Trade Agreements"(FTAs) rather than waiting for multilateral ones. The United States already signed "their" FTAs with Chile, Jordan and Singapore and have agreements under discussion with several Latin American countries, Morocco and Bahrain. The low volumes of trade between the US, Jordan, Morocco and Bahrain, suggest that the nature of these agreements is more political than commercial. In fact, bilateral agreements, more than multilateral ones, are open to political pressures and can be "granted" in exchange of political support to, for instance, controversial foreign policies. In addition, bilateral agreements, by definition, don't give equal access to all markets and real benefits may be minimized by different rules in different agreements.

Representatives of several of the G21 countries met on October the 10<sup>th</sup> in Buenos Aires, Argentina. They reiterated their willingness to operate within a multilateral frame to set trade disputes and to work out transparent and equitable international trade rules. At the last moment, Costa Rica and Guatemala decided not to participate in the Buenos Aires meeting. The reasons are not clear but, many observers talked of behind the scenes pressures by the US. This would not be surprising. If bilateral pressures or "national interests" are allowed to disrupt the G21, there is the real danger that the victory of Cancun will translate in a de facto long term defeat for poor countries.

#### WHAT NEXT? GLOBALIZATION TRENDS AT STAKE.

Next ministerial meeting of the WTO members states should take place in Hong Kong. Before that, the trade ministers of member states will reconvene in Geneva in December this year. They will have to assess the future of multilateral trade talks and of the WTO itself. The two big questions are: will the US, the EU and Japan adopt a different attitude and will the G 21 alliance hold? The answers to these two questions hold the key to the livelihoods of millions of people around the world. Globalization is a process that cannot be reversed. Per se, is neither good nor bad. It all depends on how it is managed and, even more, to whose advantage. As the Nobel laureate in economics Amartya Sen put it, even those who actively protest against globalization at each important international gathering, are not, in essence, against "globalization". Their manifestations are, themselves, among the most "globalised" events of the last few years. What they are really against, is the persistent abject poverty of hundreds of millions of people around the world and the increasing levels of inequality between and within nations.<sup>10</sup> The poorer and weaker strata of population need to be protected through public policies within countries. To the same token, in an increasingly globalised and globalising world, the poorer and weaker nations need to be protected from oppression and exploitation by richer and more powerful nations through international rules and laws. This is not happening yet.

The victory of poor countries in Cancun can lead to a more open minded and less selfish approach to international trade by rich countries. It could also lead to global economic disintegration with the total demise of the WTO and the impossibility of reforming it to the advantage of the poor. International trade is not separated by international politics. It is an integral part of it. The current trends of polarization and discrimination in international politics do not leave much room to optimistic expectations. These are tough times for those who still hope in the globalization of solidarity and tolerance against selfishness and bigotry. Paraphrasing the words of the Secretary General of UNCTAD (United Nations Conference on Trade and Development), we can certainly say that the "after Cancun" will be "... the first real test of economic policy in a post Bretton Woods globalized world".<sup>11</sup>

#### DOES IT ALL MATTER FOR HEALTH?

The answer to the above question is an unequivocal and resounding "yes". All those who are interested in and working for better health of entire populations, know that the key for it lies, mainly, outside the health sector. Education, housing, food security, safe water, adequate sanitation, adequate communications, are all very powerful determinants of the health status of populations. Government expenditure, individual and household income are, all, of great importance in facilitating social participation and access to social services.<sup>12</sup> A more equitable international trade can promote economic growth.<sup>2</sup> In the presence of economic growth, national policies ensuring resource redistribution, universal access to social services, and social participation are essential in improving population health.<sup>13</sup> Since the use and distribution of resources, between and within countries, is the essence of politics, health is much more a political than a medical issue. International and national politics matter a lot to health. Health workers must be fully aware of this.

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