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The Multilateral Trading System and Sustainable Development: Finding Common Ground for Shared Objectives

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THE MULTILATERAL TRADING SYSTEM AND SUSTAINABLE DEVELOPMENT: FINDING COMMON GROUND FOR SHARED OBJECTIVES

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Introductory Comment

1. The OECD Issues Paper states “Trade and investment liberalization, underpinned by strengthened multilateral rules combined with well-designed policies, contributes directly to improved welfare, sustainable development, and poverty reduction in developed and developing countries.” This sentence is tautological since “well designed policies” can rectify any problem but it also raises two other issues. Liberalization contributes directly only to economic growth. The linkages between economic growth and “improved welfare, sustainable development, and poverty reduction” are known to be complex and there is also potential for liberalization to worsen existing conditions. It would seem that the sentence seeks to gloss over the very substance of this consultation.

2. More serious is the conflation of “trade liberalization” and “investment liberalization,” suggesting that these are two sides of a single coin. Clearly both are vital dimensions of any policy of economic liberalization, but the benefits each promises rest on quite different foundations. Clearly both are linked. Yet the benefits of trade liberalization derive from the theory of comparative advantage. The benefits of investment liberalization derive from an increase in the capital stock and the possibility of technology transfer—but they also carry the risk of disinvestment and require an entirely different set of policies and measures to ensure that private benefits and public goods are in an acceptable balance. These distinctions need to be kept sharply in view in the interests of making good economic policy. They are of central importance when attempting to better understand the relationship between economic liberalization and “improved welfare, sustainable development, and poverty reduction.”

“Trade and” issues

3. The fact that issues are linked does not imply that they must be bundled into a single organization. This observation is just as true for trade and environment, trade and labor, or trade and human rights as for trade and investment, trade and competition, or trade and intellectual property rights. There is a risk that the mandate of the WTO will be expanded to the point where it becomes an ineffective organisation. The predominant need is to properly manage the interface between trade policy and “trade and” issues, whether investment, competition, environment, or sustainable development.

4. The coverage of the WTO Agreements was expanded dramatically by the Uruguay Round, which included agriculture, trade in services, and intellectual property rights. The Doha Ministerial Declaration envisages extending this remit even further to include investment (beyond the vestiges currently to be
found in GATS and TRIMS) and competition. The result will be an organisational mandate that is dangerously broad, and one in which it will be increasingly difficult to focus on the complex relationships between economic liberalization and sustainable development. Negotiators should take care not to turn the World Trade Organization (WTO) into a World Organization for Globalization (WOG),

The institutional dilemma

5. WSSD struggled to advance understanding of governance for sustainable development, without much success. Thus far, sustainable development represents an aspiration rather than a structured process so the development of governance for sustainable development is almost impossible. For the foreseeable future it will be necessary to pursue the widely accepted goal of sustainable development through a range of related regimes, such as those for trade, for investment, for environment, for development, or for poverty reduction.

6. The agenda of liberalization and the agenda for sustainable development overlap in one vital respect: both are institutionally demanding, and many countries, in particular developing countries, do not have the necessary institutions to either benefit from liberalization measures or shift their economy towards a more sustainable pattern. There is increasing evidence that the inability of developing countries to benefit from multilateral trade rules is rooted not only in the rules themselves but also in the institutional capacity of the developing countries. There is a risk that this line of reasoning ends up blaming the victim of discrimination, but the need for effective institutions is undeniable. This is a problem that will not be resolved by “capacity building,” since it often involves central processes of societal consensus building. Paradoxically MEAs may have a better track record of addressing the institutional dimension because they typically engage civil society, including civil society in many developing countries and consequently can create the conditions for institutional development that have largely escaped the trade regime.

7. When it comes to creating an institutional framework for sustainable development, many developed countries also face a challenging agenda of institutional change. Rather than focusing on negotiating multilateral rules—including those for market access or S&D—, more attention may need to be paid to international actions that promote institutional development at all levels. The ultimate goal must be to ensure a good fit between institutions and the policy problem they are designed to address.

The Doha agenda

8. The Doha negotiations represent an important opportunity to advance the agenda of environment and sustainable development. It is, however, essential to recognize that this agenda is to be found in all sections of the Ministerial Declaration, not only in those explicitly marked “environment.” Among the most important in this regard are the agriculture negotiations (because of agriculture’s impact on the environment and the prevalence of rural poverty worldwide) and the prospect of negotiations on investment (because investment is the only way to transform an unsustainable economy into a more sustainable one). While the Doha Ministerial Declaration intimates the development of innovative institutional responses to the need to integrate sustainable development into the negotiations (in particular in paragraphs 31 and 51), there is thus far no sign that negotiators are taking up this challenge in an active manner.

9. Negotiations on fisheries subsidies and agricultural subsidies are to be welcomed. The circumstances of these negotiations are, however, quite distinct. Subsidies in fisheries are damaging because these are open access resources and excess fishing capacity translates directly into over-fishing. Subsidies in agriculture reflect a much more complex set of circumstances. The secular decline in commodity prices—which has occurred independently of the level of subsidization—has led to a situation
where it is impossible in many OECD countries to make a living in agriculture without subsidies. Certain subsidies are essential to rural conservation. The challenge here is to develop operational distinctions between subsidies that are essential, subsidies that are acceptable, and subsidies that are unacceptable because of their iniquitous effects. While it is true that some agricultural subsidies are harmful to the environment, their removal does not guarantee environmental protection—indeed refocusing subsidies to promote sustainable development may be a more desirable goal.

Regional trade agreements and subsidiarity

10. In practice, the “multilateral trading system” also encompasses a significant number of economic agreements that include more than two parties, in particular the European Union, the North American Free Trade Agreement (NAFTA), Mercosur, and the Cotonou Agreement. It would appear that there are a range of views concerning such “regional” agreements. Some agreements—NAFTA in particular—are very short on international institutional mechanisms. The EU on the other hand has articulated a strong position regarding regional trade agreements, essentially seeking integration between members, an agenda of good governance and an agenda for sustainability as criteria for the significance and viability of such arrangements.

11. In many respects the relationship between the multilateral trading system and sustainable development is closest at the regional level. The agenda of sustainability is an agenda of subsidiarity, that is it requires the existence of institutions at numerous levels of governance and a principle that respects the autonomy of lower levels in areas where they can act effectively on their own. Many important decisions concerning sustainability cannot be taken at the global level but require local, national, or regional fora to ensure an adequate information base, opportunities for participation of affected communities, transparency and a legitimate balancing of private rights and public goods.