Strategies of the Emerging Countries in the World Trade Organization

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Emerging countries have become central to multilateral negotiations in the World Trade Organization (WTO). Since the end of the Uruguay Round, their participation shapes the evolution of the talks, as developed countries had to acknowledge during the Ministerial conferences at both Seattle and Cancun. After all, current negotiations have been labelled the "Doha Development Round" to acknowledge explicitly the link between trade and development. In recognition of the collective trading power of emerging economies, we now speak of the BICS to refer to Brazil, India, China and South Africa (see for example Hurrell 2006; Chakraborty and Sengupta 2006). However, these countries rarely act as a coherent bloc, but rather within a set of changing coalitions. We have to understand how emerging countries have come to speak on behalf of developing countries and how they have been able to impose their demands through this flexible geometry, in order to explain why the United States (US) and the European Union (EU) find themselves in the defensive on crucial issues such as agriculture. What strategies do emerging countries employ in multilateral trade negotiations and how have they been tested and revised over time?

This chapter examines the coalition patterns of developing countries under the General Agreement on Tariffs and Trade (GATT) system and within the WTO to understand how emerging economies have succeeded to incorporate their demands into the trade agenda. Initially, developing countries had criticized the inequality of outcomes, but remained relatively complaisant within multilateral negotiations due to their weak positions. Emerging countries first made a concerted effort to counter the agenda of developed countries during the Uruguay Round. Yet, the G10, organized around Brazil and India, failed in its attempt to block service trade negotiations. Other coalitions, such as the Café au Lait coalition or the Cairns Group of agricultural exporters developed integrative bargaining strategies which proved more successful than pure resistance. For the current Doha Round, emerging countries have copied these success formulas and developed them further. New coalitions now submit detailed proposals on procedure and content of negotiations and are no longer defined by their common level of development, but rather by the stakes they seek to address. In particular the G20, which formed around India, Brazil and China, but also the Like Minded Group and a myriad of issue-specific *ad hoc* coalitions are examples of these new strategies. In many cases, membership is overlapping, but the changing alliances have allowed emerging economies to advance their issues on multiple battlegrounds. Due to their combined market power, the need to incorporate the demands of emerging economies has risen sharply and has given them room to criticize both the procedures of WTO negotiations and the equity of outcomes. In the following, we will study the historical weakness of developing countries in multilateral trade negotiations, before examining the rise of the emerging economies, first in the Uruguay Round and then all the more noticeable in the Doha Development Round, where they were able to exploit the lessons from previous coalition failures.

1. Historical weakness of developing countries in the WTO

The GATT came into force in 1948, after attempts to create a more ambitious International Trade Organization (ITO) had failed. Negotiated between 23 countries in 1947, the GATT instituted a procedure for negotiating tariff reductions based on non-discrimination and reciprocity. Under the most-favourite nation principle, concessions made to one country had to be extended to all other signatories of the GATT. As a system of consensus decision-making, the GATT promoted procedural equality. This ran counter to the demands of developing countries, which had previously sought to introduce the notion of economic development into the ITO, claiming that they should be treated differently in order to facilitate their economic development.

Eleven of signatories of the GATT were developing countries and their number soon expanded into a significant majority. With each country entitled to one vote, this majority could have given a great advantage to developing countries. Interestingly, as Narlikar (2006) points out, they never actually tried to make use of this advantage, since decision-making was not based on majority voting but consensus, which implies that no member present at negotiations formally objects to a proposal. This procedure put developing countries in a weak position for several reasons. First, some of the least developed countries lacked a permanent delegation in Geneva and could not assure a continuous presence at meetings. Second, voting was not secret and developing countries feared that formal opposition would lead to informal retaliation. Passive resistance, however, does not work under the GATT system, where silence is interpreted as consensus. Third, preparatory meetings, the so-called "Green room" meetings, often required invitation by the Director General, and developing countries found themselves excluded from many of the key discussions.

Still, developing countries adhered to GATT system, as overthrowing or leaving multilateral trade negotiations would have come at a very high cost. Despite the tension between the procedural equity advocated by the GATT system and the equity in outcomes that was dear to developing countries, they therefore remained members of what they frequently called the "rich man's club" (Narlikar 2006: 1015). Differentiating between forums and issues, they advanced on the question of economic development within other organizations. In 1961, the General Assembly of the United Nations launched the first UN Decade for Development and instituted an organization charged with reviewing and evaluating the interplay between trade and economic development, the United Nations Conference on Trade and Development (UNCTAD) in 1964. At the same time, developing countries established the G77, a loose collective attempt to advance common economic interests and to provide an alternative to the G7, the intergovernmental forum of the world's major industrialized democracies which has now become the G8.

To be sure, the rise of these new venues did not go unnoticed. Within the GATT, the Committee on Trade and Development was established and a new part on Trade and Development was added to the founding text in 1965, which explicitly recognized the principle of non-reciprocity for developing countries. In the 1970s, the GATT allowed for a waiver to the most-favourite nation principle through a Generalised System of Preferences (GSP), under which countries can offer preferential trade conditions to developing countries as long as they are generalized and non-discriminatory. Although these changes were significant, they did not alter the fundamental principles of the GATT system, all the more since developed countries were under no obligations to establish a GSP. The Informal Group of Developing Countries, dominated by countries like Argentina, Brazil, Egypt, India and the former Yugoslawia, was a weak and poorly visible coalition in comparison with developing country groups in the UN system.

2. Playing the game

During the Uruguay Round, which lasted from 1986 to 1994, the strategies of developing countries changed. To begin with, many developing countries felt a need to negotiate adequate trade agreement to respond to the economic downturn and the agricultural crisis of the 1980s. The benefits of GSP were not sufficient to compensate for the imperfections of the trading system and non tariff barriers proved particularly difficult to come by. Economic liberalization was seen as a necessity and the multilateralism of the GATT system promised to protect developing countries against the 'aggressive multilateralism' employed by countries such as the United States (Bhagwati and Patrick 1991).

And yet developing countries were deeply divided about the negotiation agenda proposed by the industrialized countries in the early 1980s. The Informal Group of Developing Countries had insisted on the need to include agriculture and textiles into the GATT agenda and sought to secure standstill and rollback commitments on non-tariff barriers. Simultaneously, they were opposed to the inclusion of services and intellectual property rights. This opposition to the US agenda contributed to the delay in launching the Uruguay Round, but eventually split the group itself (Narlikar 2003). Some developing countries were willing to debate the implications of a possible service agreement and met under the leadership of Columbia's ambassador Felipe Jaramillo. The Informal Group's big five, Argentina, Brazil, Egypt, India and the former Yugoslawia, initially attended these meetings, but soon refused to continue discussions. Working with like-minded countries under the name of G10, these hardliners developed their own proposal for the new round which made no mention of services and they even refused to consult with other developing countries. Countries participating in the Jaramillo process therefore formed their own group, which later coalesced into the Café au Lait coalition (whose name refers to the joint Colombian-Suisse leadership). When the Uruguay Round was launched in 1986 with an explicit mandate on service negotiations, the failure of the G10 had become evident. Moreover, the Punta del Este Declaration that kicked off the new round relied heavily on the draft provided by the Café au Lait coalition (Narlikar and Tussie 2004: 958).

GRAPH 1 ABOUT HERE

The failure of the G10 provides several insights into the evolution of the trade diplomacy of developing countries and provided valuable lessons for future coalitions. First of all, the bloc-style diplomacy based on ideology and distributive demands had proven to be inadequate. As Narlikar and Tussie (2004) underline, the issue-based structure of the Café au Lait coalition was based on research and information sharing and allowed members to engage in value-creating strategies. Moreover, the Café au Lait coalition was unprecedented in bringing together countries from the industrialized and the developing world.

The Cairns Group of agricultural exporters took this model even further (Tussie 1993). Under the leadership of Australia, non-subsidized agricultural exporters met in April 1986 to coordinate their positions and to respond to the subsidies war between the US and the European Communities. For the participating countries, the inclusion of agriculture into the new round was of utmost importance, as the unsubsidized middle income agricultural exporters were increasingly unable to compete with European and American products. When the Punta del Este Declaration confirmed the inclusion, the Cairns Group became an important negotiating coalition. It built its expertise on rigorous studies and developed many detailed proposal during the course of the negotiations, which went a long way to establish a meeting ground for the United States and the European Communities. They were furthermore instrumental in pressing for continued talks on the issue when negotiations threatened to break down in 1988 and 1990 by announcing that that several members would veto all other issues if no progress on agriculture was made. Even though the crucial compromise on agriculture was reached between the US and the European Communities in the Blair House agreement in 1992 without members of the Cairns Group, the momentum they were able to create was inspirational for many coalitions that followed them. Like the Café au Lait coalition, the issue-focus, the North-South alliances and the constructive contribution of detailed studies had proven to be a very promising strategy.

GRAPH 3 ABOUT HERE

The evolving coalition patterns and modes of participation during the Uruguay Round demonstrate that developing countries had started to play the game of multilateral trade talks in order to defend their own interests. After the failure of the old-style bloc diplomacy of the G10 that was reminiscent of the Third-Worldist rhetoric employed in forums such as UNCTAD, new strategies relied on constructive proposals and broad coalitions. By combining the market power of several developed countries, emerging economies and developing countries, these cross-over coalitions allowed developing countries to participate at a more equal footing with the trading superpowers that had previously dominated multilateral trade negotiations.

The participation thus marked a substantial change in the rhetoric and trade position of emerging countries. By insisting on the need to include agriculture and textiles into the GATT and contributing to the negotiation of services, they had for the first time worked to reinforce the multilateral framework rather than calling for the abrogation of the GATT on the grounds of economic development. The successful participation in the Uruguay Round therefore came at a considerable cost: developing countries had made many concessions and bound themselves to a complex system of rules. Moreover, with the creation of the WTO through at the end of the Uruguay Round, they faced a reinforced dispute settlement system and thus the threat to be penalized if they could not comply with the new agreements. Even though the participation of developing countries in the dispute settlement system increased under the WTO, they were also five time more likely to be the target of a complaint compared to the GATT system (Reinhard and Busch 2002). In the aftermath of the Uruguay Round, developing countries realized that the costs for implementing their commitments were much higher than they had expected. Although they did not convert back to the calls for distributive justice that they had employed in the 1960s and 1970s, negotiators for developing countries, led by the emerging economies, realized that they needed to address fundamental questions of equity in procedures and outcomes, rather than simply playing by the rules of the world trading system that the industrialized countries had developed (Narlikar 2006: 1020-1021).

3. Putting development on the international trade agenda

At the Seattle Ministerial Conference in 1999, delegates from African, Caribbean and Latin American countries opposed the launch of a new round by arguing that the negotiating system did not allow them to wield an influence comparable to developed countries. While proponents of the system argued that the one-country-one-vote rule produced fair outcomes, developing countries pointed to the various informal decision-making procedures, in particular the Green Room meetings, to show how weaker countries were marginalized on key issues. In the aftermath of Seattle, many produced detailed proposals on institutional reform and thereby signalled their willingness to participate in WTO negotiations, while at the same time challenging the fairness of the present system.

Other countries went further and criticized both procedures and substance of the past trade negotiations. The Link Minded Group, formed in 1996 by Cuba, Egypt, India, Indonesia, Malysia, Pakistan, Tanzania and Uganda vehemently opposed to new round until developed countries were willing to address the costs of implementing the Uruguay Round, which represented a heavy burden for developing countries. They furthermore opposed the inclusion of competition policy, investment, transparency in government procurement and trade facilitation, the so-called Singapore issues, that the EU had been pushing for since 1996. The Like Minded Group offered few concessions in its opposition to the launch of a new round, so the developed countries started began making partial offers to subgroups within the coalition. In return for dropping opposition to the Singapore issues, industrial tariffs and environmental concerns, a WTO waiver was established with the EU agreement with the Africa, Caribbean, and Pacific countries and developed countries began working on aid packages and assistance for capacity-building in the most marginalized countries. When India and South Africa complained about the penalized use of generic medicines under the intellectual property rights regime (TRIPs) of the WTO, developed countries agreed to issue a declaration on “TRIPs and Public Health” (Chakraborty and Sengupta 2006: 48). Simultaneously, diplomatic relations were used to work against hard line ambassadors. As the coalition became fragmented, several countries felt that it became unwise to continue their resistance and the voice of the Like Minded Group declined. At the Doha Ministerial meeting on 14 November 2001, India stood alone in its opposition (see Odell 2006). The new round was launched, but signalled the commitment to the concerns of developing countries not least by naming its negotiation the Doha Development Agenda.

Several small coalitions worked to ensure and follow up on the proposals made in 2001 and to press for new issues. Country groups included the African Group, the African Caribbean Pacific Group, the Group of Least Developed Countries and Small and Vulnerable Economies, while other coalitions focused on specific trading stakes, such as the Core Group on Singapore issues, the Coalition on Cotton or the Alliance on Strategic Products and Special Safeguard Mechanisms (for discussion, see Narlikar and Tussie 2004). Through their persistence, these groups succeed in linking the discussion on intellectual property rights with public health concerns, improving market access in non-agricultural products, securing special and differential treatment for developing countries and obtaining capacity assistance. On the downside, implementation issues and the Singapore issues were linked with the Doha Development Agenda, instead of simply being discarded, as the developing countries had asked, which will most likely imply future concession.

After many missed deadlines and fruitless discussions on a number of contentious issues in 2002, the preparation of the Cancun Ministerial Conference in 2003 turned out to be a watershed in the strategies of the emerging countries. Whereas they had previously sought to form alliances of sympathy around issues of mutual concern, the joint US-EU declaration on agriculture on 13 August 2003 drove all emerging countries into the opposition. Prior to the US-EU declaration, the Cairns Group members were looking to the US to support their offensive demands, while protectionist countries hoped to side with the EU. When they realized that the US and the EU had jointly prepared a highly unsatisfactory text, Brazil and India drafted a response together with other developing countries. After China joined the group, it had become one of the most important alliances of the Doha Development Round. The signature of the text on 2 September 2003 marks the birth of the G20, a coalition driven by all the emerging powers from the developing world that could not be ignored.

GRAPH 2 ABOUT HERE

Contrary to the Like Minded Group and much like the Café au Lait coalition and the Cairns Group, the G20 had a proactive agenda. It demanded more substantial cuts on domestic support from both the US and the EU, greater commitments from developed countries on non-agricultural market access, and proposed a differentiated formula for the elimination of export subsidies. References to special and differential treatment were made throughout the proposal. Consultation between the G20 and several of the other small groups was excellent and helped to ensure the cohesion of developing countries demands (Narlikar and Tussie 2004). Several of the coalitions from poorer developing countries furthermore coordinated to become the G90 in an effort to show the breadth of support for crucial issues such as cotton.

Neither the developed nor the developing countries were willing to give ground at the Ministerial Conference in Cancun in September 2003. The ministerial draft text, called the Derbez Draft, did little more than restating the joint EU-US proposal in the eyes of the G20, while the EU and the US felt that it went too far on domestic support. On the Singapore issues, the Core Group insisted that consensus was required to commence the negotiation of modalities, but several countries pressed for an agreement on all four of the issues. For the least developed countries, cotton was an issue of great concern and four Central and West African countries had demanded a complete phase out of subsidies in the developed world. The Derbez text, by contrast, leaned close to the US position by dealing with cotton as a matter of texiles and clothing more generally, which created a general sense of distrust and antagonism. Unable to agree on such crucial issues as agriculture, the Singapore issues and cotton, the Cancun meeting collapsed without an agreement. The cohesion of the negotiating positions of developing countries contributed to this stalemate to a large extent.

For many observers, the G20 was not going to last. Bringing together some of the most unlikely candidates, which are all large and powerful leaders of their regions, there were many reasons to believe that the group could easily fall prey to a divide-and-conquer strategies that developed countries have used against the G10 or the Like Minded Group. Yet so far, the G20 has avoided the fragmentation that many foresaw. One of the keys to this success was the flexibility of the allegiances that allowed members to turn to other groups for particular issues that were incompatible with the collective agenda. Members of the G20 continued to work in issue-specific groups and even founded new ones where they could not rely on the G20 as a negotiating forum. Several countries assembled around China and India to address questions of food security, livelihood security and rural development in a new forum called the G33. Since the G33 was somewhat defensive in its approach to agricultural policy, offensive G20 members such as Brazil or South Africa did not join (Chakraborty and Sengupta 2006: 53). Throughout these negotiations, consultation between different blocs was maintained.

Brazil and India furthermore cooperated with Australia, the EU and the US in an attempt of the “five interested parties” to move beyond the deadlock in the multilateral negotiations. The two week discussions in Geneva in July 2004 finally resulted in a draft text known as the July 2004 Package. It presented a compromise that signalled that both sides were willing to make concessions in order to get the multilateral talks back on track. In particular, the July Package postponed the deadline for the round’s completion to an unspecified date and dropped all Singapore issues except trade facilitation, for which it made concessions based on the capacity and infrastructure of the country that needs to implement it. In response to the demands of both the G20 and the G33, cotton was treated as a separate issue. The annex on agriculture proposed a ‘tiered’ formula approach for phasing out domestic subsidies and notes that reduction requirements and market access commitments would not be the same for developed and developing countries. Furthermore, both could designate sensitive products and developing countries can name “special products” to avoid tariff cuts where food security or rural development is concerned. A special safeguard mechanism was incorporated and least developed countries were not required to reduce tariffs. In addition, developed countries committed to making a down payment by cutting their subsidies by 20% in the first year. The July Package thus went a long way to address issues that WTO members refused to consider at Cancun, even though it is not sure how significant the concessions made by developed countries are going to be once put into practice. Nonetheless, the draft was important in bringing several of the developing countries concern on the negotiating table at the Hong Kong Ministerial in 2005.

The Hong Kong Ministerial solidified some of these demands and brought together the G20 and the G90, which formed the G110 to demonstrate that they were resolved not to be used against each other by the EU of the US. Another developing country group with Brazil, India and South Africa as members was NAMA-11, founded to press for the rapid liberalization of market access in industrialized products. Even though the ministerial text indicated that the reduction of agriculture subsidies and market access under mode 4 of the service agreement still remained open to negotiations, developing countries heartily welcomed the first amendment of a core WTO agreement, namely changes to the TRIPS agreement with respect to public health approved by the General Council on 6 December 2005 (Chakraborty and Sengupta 2006: 56).The Hong Kong declaration established a deadline establishing modalities on agriculture and non-agricultural market access in April 2006 and for submitting comprehensive draft schedules by July 2006. Only the EU submitted a detailed proposal, but India and Brazil were unwilling to make concessions as long as the US refused to bring down its agricultural subsidies. On 23 July, WTO Director General Pascal Lamy suspended the negotiations, which were reopened in early 2007 in Davos. In order to finish the round by the end of 2007 to avoid postponing it until after the presidential election in the US, trade negotiators have consulted intensely in the course of 2007. On 17 July 2007, the chairmen of the WTO negotiating committees on agriculture and industrial market access published their new proposals which are currently being studied. Even though negotiations were still ongoing at the time of writing, European Trade Commissioner Peter Mandelson declared in a speech to the Council on Foreign Relations in New York on 18 September 2007 that he was optimistic that an agreement could be achieved shortly.

4. Conclusion

What is certain even before the conclusion of the Doha Development Round is that emerging economies have become key players in the multilateral trade talks. Brazil and India are as central and the EU, the US, Japan or Australia for explaining the evolution of the negotiations started in 2001 and the presence of South Africa or China in a group increases its weight considerably. A key to the emerging countries' success is the flexible use of "shifting coalitions" (Narlikar and Tussie 2004), which have enabled them to express their views on the most important stakes and to impose a reconsideration of the equity between developed and developing countries that arise from both procedures and outcomes of multilateral trade talks.

In the early years of the GATT system, developing countries were largely sidelined and preferred to advance on economic development issues outside the multilateral trade forum through organizations such as UNCTAD or the G77. Their silence in trade talks and Third World rhetoric cave way to new coalition strategies in the preparation of and the negotiations during the Uruguay Round. With the failure of the G10, which aimed at simply blocking the inclusion of the services into the new round, developing countries learned to form issue-specific coalitions and to advance constructive and well-researched proposals. Both the Café au Lait Coalition and the Cairns Group furthermore increased pressure by allying with developed countries in the pursuit of their goals. However, the implicit acceptance of the GATT system that came with these constructive strategies during the Uruguay Round came at the cost of bearing disproportionate implementation costs and seeing the issues central to developing countries largely ignored. Strategies during the new round therefore aimed at challenging both the seeming inequality in informal procedures at the WTO and the differential impact of agreement on developed and developing countries.

This new focus on both procedure and outcome equality became possible through the intelligent use of multiple coalitions carried by emerging economies that spoke on behalf of developing countries. Without relying on the distributive rhetoric from the 1960s and 1970s, emerging economies tried to retain a certain degree of bloc identity and insisted on the common interests of countries with similar levels of development, while at the same time focusing on specific issue-areas and elaborating constructive and rigorous policy proposals. The dual negotiating identity was possible without falling prey to divide-and-conquer strategies of developed countries through flexible and overlapping membership in a complex web of coalitions, which all worked to maintain friendly relations among each other. On specific issues such as cotton or the reduction of agricultural subsidies, emerging economies were able to mobilize up to 90 or 110 countries, but this did not need to be maintained over a long period of time, as core groups could fall back on previous alliances when internal cohesion was threatened. The intelligent combination of strategies that have proven successful at different periods from the 1960s to the 1990s thus assured the rise of emerging economies to the centre stage of multilateral trade negotiations and anchored development issues firmly within the international trade agenda.

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